Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Operations
(Dollars in millions)
(Unaudited)

	One Month ended September 30,			Nine Months Ended September 30,		
	2001	Plan	2000	2001	Plan	2000
Revenues	54.0	51.6	37.2	365.1	377.2	190.2
Network costs	20.3	24.6	15.9	177.7	187.8	103.5
Gross Margin	33.7	27.1	21.3	187.3	189.4	86.7
Gross Margin %	62.4%	52.4%	57.2%	51.3%	50.2%	45.6%
Selling, general and administrative expenses	33.2	34.7	23.3	271.9	271.7	174.6
Earnings before interest, taxes, depreciation and amortization	0.5	(7.6)	(2.0)	(84.6)	(82.3)	(87.9)
Depreciation and amortization	23.1	22.0	12.6	182.3	177.5	83.9
Management ownership allocation charge	-	-	-	-	-	5.9
Noncash deferred compensation	(6.5)	1.1	1.1	3.0	17.4	6.0
Earnings before interest and taxes	(16.1)	(30.7)	(15.7)	(269.8)	(277.2)	(183.7)
Interest Income	2.7	1.2	4.7	14.7		45.0
Interest Expense	7.0	7.2	5.6	51.1		52.6
Interest, Net	(4.2)	(6.0)	(0.9)	(36.4)	(60.2)	(7.6)
Net income (loss)	(20.3)	(36.7)	(16.6)	(306.2)	(337.4)	(191.3)

TD 1023

Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Cash Flows
(Dollars in millions)
(Unaudited)

	One Month Ended September 30, 2001	One Month Ended September 30, Plan	One Month Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, Plan	Nine Months Ended September 30, 2000
Cash Flows from Operating Activities						
Net (loss)	(20.3)	(36.7)	(16.6)	(306.2)	(320.9)	(191.3)
Adjustments to reconcile net (loss) to cash used in operating activities						
Depreciation and amortization	23.1	22.0	12.6	182.3	177.5	83.9
Provision for uncollectible accounts receivable	6.9	2.0	3.9	25.0	15.4	16.2
Accretion of investments	(2.1)	-	(0.7)	(4.4)	(0.3)	(2.4)
Accretion of series B and 12 7/8% notes	3.7	3.8	3.4	32.0	32.0	28.6
Amortization of deferred debt issuance costs	0.1	0.1	0.4	1.0	0.7	9.1
Amortization of management ownership allocation charge and deferred compensation	(6.5)	1.1	1.1	3.0	17.4	11.9
Amortization of credit facility expense	0.3	0.3	-	2.5	2.5	-
Change in assets and liabilities						
(Increase) decrease in accounts receivable	(14.2)	0.4	(12.7)	(55.4)	(37.6)	(67.8)
(Increase) decrease in prepaid and other current asset	0.3	(0.2)	(0.4)	(3.9)	(1.5)	(2.2)
(Increase) decrease in other assets	0.1	0.0	(0.3)	(7.5)	(0.4)	0.5
Increase (decrease) in accounts payable	(1.1)	(4.1)	28.8	(20.4)	(33.7)	45.2
Increase (decrease) in accrued liabilities and other	(5.6)	(8.9)	12.5	11.4	(19.3)	30.4
Net Cash Used in Operations	(15.4)	(20.2)	31.9	(140.6)	(168.1)	(37.9)
Cash Flows from Investing Activities						
Purchases of property and equipment	(26.1)	(21.8)	(54.9)	(319.0)	(310.0)	(343.3)
Capitalized Interest	(1.5)	-		(13.5)	-	-
Purchases of subsidiaries, net of cash acquired	0.5	-	(20.7)	(16.9)	-	(41.7)
Purchases of short term investments	(30.3)	-	(54.8)	(283.9)	-	(96.6)
Proceeds from redemption of investments	24.3	-	-	500.7	13.2	68.6
Net Cash Used in Investing Activities	(33.1)	(21.8)	(130.5)	(132.7)	(296.7)	(413.1)
Cash Flows from Financing Activities						
Deferred debt issuance costs	-	-	-	-	-	(12.3)
Proceeds from credit facility draw	350.0	-	-	350.0	-	-
Proceeds from issuance of common stock, net	-	-	0.3	6.2	-	727.3
Payments on Capital Lease Obligations	(0.7)	(0.3)	-	(3.8)	(3.4)	-
Other Financing Activities	-	-	(0.3)	-	-	(2.2)
Net Cash Provided from Financing Activities	349.3	(0.3)	0.1	352.3	(3.4)	712.7
Net increase (decrease) in cash	300.8	(42.3)	(98.4)	79.1	(468.2)	261.8
Cash, beginning of period	174.4	232.0	862.5	396.1	658.0	502.2
Cash, end of period	475.2	189.7	764.0	475.2	189.7	764.0

TD 1024

Allegiance Telecom, Inc and Subsidiaries
Consolidated Balance Sheet
(Dollars in millions)
(Unaudited)

	September 30, 2001	September 30, Plan	September 30, 2000
ASSETS			
CURRENT ASSETS			
Cash and equivalents	475.2	189.7	764.0
Short term investments	62.4	-	66.1
Short term investments restricted	-	-	26.0
Accounts receivable, net	127.0	116.0	82.1
Prepaid expenses and other current assets	10.7	7.0	5.3
Total current assets	675.3	312.8	943.5
PROPERTY AND EQUIPMENT, net	1,002.4	915.6	667.7
OTHER ASSETS			
Debt issuance costs	20.1	20.1	24.9
Goodwill, net of amortization	119.5	69.0	96.5
Long Term investments restricted	1.0	0.8	0.8
Other assets	45.3	22.6	-
Total other assets	185.8	112.6	122.2
Total assets	1,863.5	1,341.0	1,733.4
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	65.1	47.1	92.7
Accrued liabilities and other current liabilities	72.9	39.0	67.2
Total current liabilities	138.0	86.1	159.9
LONG-TERM LIABILITIES			
Long-Term debt	983.2	576.3	549.9
Other Long-Term liabilities	12.4	23.6	4.7
Total long-term liabilities	995.6	599.9	554.6
STOCKHOLDERS' EQUITY			
Common stock, par value	1.1	1.1	1.1
Common Stock Warrants	1.9	1.9	2.1
Additional paid-in capital	1,791.6	1,729.2	1,697.1
Deferred compensation			(8.5)
Deferred management ownership allocation charge			(0.7)
Retained earnings (deficit)	(1,064.6)	(1,077.2)	(672.2)
Total stockholders' equity	729.9	655.0	1,018.9
Total liablities & stockholders' equity	1,863.5	1,341.0	1,733.4

TD 1025

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
One Month Ended September 30, 2001
(Dollars in millions)
(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid -In Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Warrants	Deferred Compensation	Accumulated Deficit	Total
BALANCE, August 31, 2001	113.5	1.1	1,784.4	(0.3)		1.9	(2.8)	(1,044.3)	740.3
Record purchase of Coast to Coast	1.3		16.4						16.4
Deferred compensation			(7.2)				1.8		(5.4)
Amortization of deferred compensation							(1.1)		(1.1)
Net loss								(20.3)	(20.3)
BALANCE, September 30, 2001	114.9	1.1	1,793.6	(0.3)	-	1.9	(2.0)	(1,084.6)	729.9
Plan, September 30, 2001		1.1	1,729.2			1.9		(1,077.2)	655.0
BALANCE, September 30, 2000	109.4	1.1	1,697.1	(0.3)		2.1	(8.5)	(672.2)	1,018.9

TD 1026

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
Nine Months Ended September 30, 2001
(Dollars in millions)
(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid -In Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Warrants	Deferred Compensation	Management Ownership Allocation Charge	Accumulated Deficit	Total
BALANCE, December 31, 2000	110.4	1.1	1,730.7	(0.3)		1.9	(16.5)	(0.2)	(758.4)	958.5
Issue of stock, employee stock purchase plan	0.3	-	3.9	-	-	-	-	-	-	3.9
Option exercise	0.3	-	2.1	-	-	-	-	-	-	2.1
HarvardNet Purchase	1.7	-	35.3	-	-	-	-	-	-	35.3
JumpNet Holdback Distribution	0.1	-	1.3	-	-	-	-	-	-	1.3
Adgrafix Purchase	0.6	-	14.1	-	-	-	-	-	-	14.1
Record Distribution of CTSnet Holdback	0.1	-	1.2	-	-	-	-	-	-	1.2
Record purchase of Coast to Coast	1.3	-	16.4	-	-	-	-	-	-	16.4
Deferred Compensation	-	-	(11.7)	-	-	-	6.3	-	-	(5.4)
Amortization of deferred compensation	-	-	0.2	-	-	-	8.2	0.2	-	8.5
Proceeds from Morgan Stanley	-	-	0.2	-	-	-	-	-	-	0.2
Net loss	-	-	-	-	-	-	-	-	(306.2)	(306.2)
BALANCE, September 30, 2001	114.9	1.1	1,793.6	(0.3)	-	1.9	(2.0)	-	(1,064.6)	729.9
Plan, September 30, 2001		1.1	1,729.2			1.9			(1,077.2)	655.0
BALANCE, September 30, 2000	109.4	1.1	1,697.1	(0.3)		2.1	(8.5)		(672.2)	1,018.9

Allegiance Telecom, Inc.
Narrative Report for September 30, 2001

Overview

Allegiance Telecom, Inc. is a leading competitive provider of integrated telecommunications in major metropolitan areas across the United States. We offer an integrated set of telecommunications services including local, long distance, data and web hosting services. Our principal competitors are incumbent local exchange carriers, such as the regional Bell operating companies, as well as other integrated communications providers.

Results of Operations —Nine Months Ended September 30, 2001 Compared With Nine Months Ended September 30, 2000

For the month ended September 30, 2001 and 2000, we generated revenues of approximately $54.0 million and $37.2 million, respectively. For the nine months ended September 30, 2001 and 2000, we generated revenues of approximately $365.1 million and $190.2 million, respectively. The increase in revenue is attributable to an increase in number of customers and the number of lines installed. For the nine months ended September 30, 2001 and 2000, the number of lines installed increased to 1,005,900 lines and 499,700 lines, respectively. "Lines sold" by us represents the number of lines for which customers have placed orders with us to provide services. The services we provide over our own switches generate higher margins than services provided by other carriers that are resold by us. Over 91% of our installed lines were provided over our own switches, representing approximately 94% of our revenues as of September 30, 2001, and we expect this level of facilities-based service to remain constant over time. Gross margin has increased from approximately 57.2% for the month ended September 30, 2000 to approximately 62.4% for the month ended September 30, 2001. Gross margin has increased from approximately 45.6% for the nine months ended September 30, 2000 to approximately 51.3% for the nine months ended September 30, 2001. We expect our gross margins to continue to improve as our revenues increase and as we realize cost efficiencies in our network expenses.

Local voice service revenues for the nine months ended September 30, 2001 and 2000 were $241.0 million and $143.0 million respectively. Local voice service revenues consisted of the monthly recurring charge for basic local voice service; usage-based charges for local and toll calls in certain markets; charges for services such as call waiting and call forwarding; certain non-recurring charges, such as set-up charges for additional lines for an existing customer; and interconnection revenues from switched access charges to long distance carriers and reciprocal compensation charges to other local carriers.

Components of our local voice service revenues are subject to various federal and state regulations and to disputes and uncertainties. We expect local voice service revenues to continue to decrease as a percent of total revenues, as a result of the resolution of certain of these regulatory disputes and uncertainties. Specifically, we expect and have modified our business plans to anticipate a decrease in switched access revenues and reciprocal compensation revenues.

TD 1028

Long distance service revenues for the nine months ended September 30, 2001 and 2000 were $19.6 million and $7.1 million, respectively. We reduced our pricing of long distance services during 2000 to respond to competitive pressures and we anticipate long distance pricing to continue at historically low levels given the current competitive environment. Although these reduced prices decrease our margins, we anticipate that more of our local service customers will purchase long distance service from us at our current pricing levels and through our continuing effort to promote the benefits of purchasing local, long distance and data services from a single provider.

Data revenues, including revenues generated from Internet access, Web hosting and high-speed data services, for the nine months ended September 30, 2001 and 2000 were $104.5 million and $40.1 million, respectively. We expect data revenues to continue to increase as a percent of total revenues (a) as we expand our data services offerings to existing local and long distance voice customers, (b) as we increase our offerings of packaged services that combine voice and data services which we market as the Allegiance Telecom Total Communications Options and (c) as more small and medium-sized businesses turn to the Internet to enhance their productivity. We also believe that the continuing evolution of communications networks will promote the integration of voice and data services over the same facilities, thereby further increasing the availability of data offerings.

During the third quarter of 2001, we acquired the stock of Coast to Coast Telecommunications, Inc., a provider of local and long-distance telecommunications services. During the first quarter of 2001, we acquired the stock of Adgrafix Corporation and certain assets of HarvardNet, Inc., both Internet-based, web-hosting applications specialists. We have utilized the purchase method of accounting for these acquisitions. Accordingly, we have recognized the revenues earned since the closing of each of these acquisitions in our condensed consolidated statement of operations for the nine months ended September 30, 2001.

For the month ended September 30, 2001 and 2000, network expenses were $20.3 million and $15.9 million, respectively. For the nine months ended September 30, 2001 and 2000, network expenses were $177.7 million and $103.5 million, respectively. The increase in network expenses is consistent with the deployment of our networks and initiation and growth of our services. Network expenses include the cost of leasing local loop lines which connect our customers to our network; the cost of leasing high-capacity digital lines that interconnect our network with the networks of the incumbent local exchange carriers; the cost of leasing high-capacity digital lines that connect our switching equipment to our transmission equipment located in the central offices of the incumbent local exchange carrier; the cost of expanding our network to additional colocation sites within a market; the cost of completing local and long distance calls originated by our customers; the cost of leasing space in incumbent local exchange carrier central offices for colocating our transmission equipment; and the cost of leasing our nationwide Internet network.

When we open new markets, we incur significant general and administrative expenses and network expenses before we begin to generate revenue from operations. Many of the network expenses, such as for transport facilities and colocation rent and power charges, are fixed costs that we do not recover until we build up a sufficient volume of traffic from customers. Consequently, as we continue to open new markets throughout 2001, we will continue to generate operating losses and do not expect to generate positive cash flow from operations until some time in 2002.

TD 1029

Selling, general and administrative expenses increased to $33.2 million for the month ended September 30, 2001 from $23.3 million for the month ended September 30, 2000. Selling, general and administrative expenses increased to $271.9 million for the nine months ended September 30, 2001 from $174.6 million for the nine months ended September 30, 2000, primarily due to the growth of our business. Selling, general and administrative expenses include salaries and related personnel costs, administration and administration related facilities costs, sales and marketing costs, customer care and billing costs, and professional fees. The number of employees increased to 3,984 as of September 30, 2001, from 2,936 as of September 30, 2000. As of September 30, 2001, the sales force, including sales managers and sales administrators, had grown to 1,571 from 1,231 as of September 30, 2000. As we continue to grow in terms of number of markets, customers and employees, we expect that ongoing selling, general and administrative expenses will increase.

We amortized $0.2 million of the deferred management ownership allocation charge, a non-cash charge to income, for the nine months ended September 30, 2001. The same charge for the nine months ended September 30, 2000 was $5.9 million. Our original private equity fund investors and original management team investors owned 95.0% and 5.0%, respectively, of the ownership interests of Allegiance Telecom, LLC, an entity that owned substantially all of our outstanding capital stock prior to our initial public offering of common stock. As a result of that offering, the assets of Allegiance Telecom, LLC, which consisted almost entirely of such capital stock, were distributed to the original fund investors and management investors in accordance with the Allegiance Telecom, LLC limited liability company agreement. This agreement provided that the equity allocation between the fund investors and management investors would be 66.7% and 33.3%, respectively, based upon the valuation implied by the initial public offering. We recorded the increase in the assets of Allegiance Telecom, LLC allocated to the management investors as a $193.5 million increase in additional paid-in capital. This transaction was recorded during the third quarter of 1998. Of this charge, we recorded $122.5 million as a non-cash, non-recurring charge to operating expense and $71.0 million as a deferred management ownership allocation charge. This deferred charge was fully amortized as of March 31, 2001.

For the nine months ended September 30, 2001 and 2000, we recognized $3.0 million and $6.0 million, respectively, of amortization of deferred compensation expense. Such deferred compensation was recorded in connection with membership units of Allegiance Telecom, LLC sold to certain management employees and options granted to certain employees under our 1997 stock option plan and 1998 stock incentive plan.

For the month ended September 30, 2001 and 2000, depreciation expense was $23.1 million and $12.6 million, respectively. For the nine months ended September 30, 2001 and 2000, depreciation expense was $132.6 million and $68.9 million, respectively. Such increase was consistent with the deployment of our networks and initiation of services in 34 markets by September 30, 2001.

In connection with the acquisitions completed to date, we assigned an aggregate of $46.1 million of the purchase price to customer lists and workforces. We also recorded an aggregate of $187.7 million of goodwill. Each of these intangible assets is being amortized over their estimated useful lives of three years. For the nine months ending September 30, 2001 and 2000, we recorded $40.2 million and $12.6 million of amortization for goodwill and $9.4 million and $2.4 million of amortization of customer lists and workforces, respectively.

TD 1030

For the month ended September 30, 2001 and 2000, interest expense was $7.0 million and $5.6 million, respectively. For the nine months ended September 30, 2001 and 2000, interest expense was $51.1 million and $52.6 million, respectively. Interest expense reflects the accretion of the 11 3/4% notes and related amortization of the original issue discount, the amortization of the original issue discount on the 12 7/8% notes, and the interest charges and amortization of deferred debt issuance costs related to our $500 million senior secured credit facilities. Unamortized deferred debt issuance costs of $5.9 million related to the $225 million revolving credit facility were charged to interest expense during first quarter 2000, upon termination of the $225 million revolving credit facility and completion of the $500 million senior secured credit facilities. The amount of interest capitalized for the nine months ended September 30, 2001 was $13.5 million. For the same period in 2000, the amount was $10.6 million, respectively. Interest income for the nine months ended September 30, 2001 was $14.7 million. Interest income for the nine months ended September 30, 2000 was $45.0 million. Additionally, during the nine months ended September 30, 2001, we recorded impairment losses against interest income related to interest-bearing investment securities deemed to have a permanent decline in fair value.

Our net loss for the month ended September 30, 2001 and the month ended September 30, 2000, after amortization of the non-cash management ownership allocation charge and amortization of deferred compensation, was $20.3 million and $16.6 million, respectively. Our net loss for the nine months ended September 30, 2001 and the nine months ended September 30, 2000, after amortization of the non-cash management ownership allocation charge and amortization of deferred compensation, was $306.2 million and $191.3 million, respectively.

Many securities analysts use the measure of earnings before deducting interest, taxes, depreciation and amortization, also commonly referred to as "EBITDA" as a way of measuring the performance of a company. EBITDA is not derived pursuant to generally accepted accounting principles, and therefore should not be construed as an alternative to operating income (loss), as an alternative to cash flows from operating activities, or as a measure of liquidity. For the nine months ended September 30, 2001 and 2000, we had adjusted EBITDA losses of $84.5 million and $87.9 million, respectively. In calculating adjusted EBITDA, we also exclude the non-cash charges to operations for the management ownership allocation charge and deferred compensation expense totaling $3.0 million for the nine months ended September 30, 2001 and $11.9 million for the nine months ended September 30, 2000.

We expect to continue to experience operating losses and negative adjusted EBITDA as a result of our development and market expansion activities. We typically do not expect to achieve positive adjusted EBITDA in any market until at least its third year of operation.

Liquidity and Capital Resources

Our financing plan is predicated on the pre-funding of each market's expansion to positive free cash flow. By using this approach, we avoid being in the position of seeking additional capital to fund a market after we have already made a significant capital investment in that market. We believe that by raising all required capital prior to making any commitments in a market, we can raise capital on more favorable terms and conditions.

We do not begin to develop a new market until we have raised the capital that we project to be necessary to build and operate our network in the market to the point at which operating cash flow from the market is sufficient to fund its ongoing operating costs and capital expenditures. We believe that all of our 36 target markets are now fully funded in this manner. We also believe that our existing cash on hand, together with cash from our committed $500 million of senior secured credit facilities, are sufficient to fully fund our operations, planned capital investments and debt service requirements during the next twelve months and until such time as we have positive cash flow from operations on a consolidated basis to fund these items.

For the nine months ended September 30, 2001 and 2000, we made capital expenditures of $319.0 million and $332.7 million, respectively. We also used capital during these periods to fund our operations.

We have purchased dedicated fiber rings in 24 of our markets. As of September 30, 2001, we had dedicated fiber rings in operation in 14 markets including Austin, Chicago, Dallas, Denver, Ft. Worth, Houston, New York City, Northern New Jersey, Philadelphia, Portland, St. Louis, Seattle, Washington, D.C., and White Plains. The cost of these rings includes both the amounts we pay to the fiber ring provider as well as the cost of the electronic equipment that we purchase and install on the rings to make them operational.

As of September 30, 2001, we had approximately $537.6 million of unrestricted cash and short-term investments.

On February 3, 1998, we raised gross proceeds of approximately $250.5 million in an offering of 445,000 units, each unit consisting of one 11 3/4% senior discount note and one redeemable warrant. Net proceeds of approximately $240.7 million were received from that offering. The 11 3/4% notes have a principal amount at maturity of $445.0 million and an effective interest rate of 12.21%. The 11 3/4% notes mature on February 15, 2008. From and after February 15, 2003, interest on such notes will be payable semiannually in cash at the rate of 11 3/4% per annum. The accretion of original issue discount will cause an increase in indebtedness from September 30, 2001 to February 15, 2003 of $70.4 million.

We completed raised net proceeds of approximately $124.8 million in our offering of the 12 7/8% senior discount notes early in the third quarter of 1998. The 12 7/8% notes mature on May 15, 2008. Interest on these notes is payable in cash semiannually, commencing November 15, 1998. The 12 7/8% notes were sold at less than par, resulting in an effective rate of 13.24%, and the value of the 12 7/8% notes is being accreted, using the effective interest method, from the $200.9 million gross proceeds realized at the time of the sale to the aggregate value at maturity, $205.0 million, over the period ending May 15, 2008. The accretion of original issue discount will cause an increase in indebtedness from September 30, 2001 to May 15, 2008 of $3.2 million.

In February 2000, we closed on $500.0 million of new senior secured credit facilities, which replaced the $225 million revolving credit facility. These new senior secured credit facilities consist of a $350.0 million revolving credit facility and a $150.0 million delayed draw term loan facility. These credit facilities are available, subject to satisfaction of certain terms and conditions, to provide purchase money financing for network build-out, including the cost to develop, acquire and integrate the necessary operations support and back office systems, as well as for additional dark fiber purchases and central office colocations. Interest on amounts drawn is variable, based on leverage ratios, and is expected to be the London Interbank Offered Rate + 3.25%. The initial commitment fee on the unused portion of these credit facilities will be 1.5% per annum, paid quarterly and will be reduced based upon usage. These credit facilities contain certain representations, warranties, covenants and events of default customary for credit of this nature and otherwise agreed upon by the parties.

During September, 2001, we elected to draw down on the $150 million delayed draw term loan due December 31, 2006 and a $200 million revolving loan, also due on December 31, 2006, for a total of $350 million. The initial interest rate is 6.28 percent.

TD 1032

Nov. 2001

CONFIDENTIAL
For use only by the Lenders under that certain
Credit and Guaranty Agreement referred to below

COMPLIANCE CERTIFICATE
FINANCIAL OFFICER CERTIFICATE

THE UNDERSIGNED HEREBY CERTIFIES TO ALL AGENTS AND LENDERS AS FOLLOWS:

1. am the Senior Vice President of Finance and Accounting of Allegiance Telecom, Inc., a Delaware corporation ("*Company*").

2. This certificate is the "Financial Officer Certification" required by Section 5.1(a) of that certain Credit and Guaranty Agreement, dated as of February 15, 2000, by and among Company, Allegiance Telecom Company Worldwide ("*Borrower*"), the Subsidiaries of Company (other than Borrower) party thereto, as Guarantors, Lenders, Goldman Sachs Credit Partners L.P., as Syndication Agent and Sole Lead Arranger, Toronto Dominion (Texas), Inc., as Administrative Agent and BankBoston, N.A. and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents. Capitalized terms used but not otherwise defined in this certificate have the meanings given to such terms in the Credit and Guaranty Agreement.

3. The attached financial statements fairly present, in all material respects, the financial condition of the Company and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated, subject to changes resulting from audit and normal year-end adjustments.

Allegiance Telecom, Inc.
By: ____________________
Name: G. Clay Myers, Senior Vice President of Finance
and Accounting

TD 1037

Tom Lord
#168

Oct 2001

CONFIDENTIAL
For use only by the Lenders under that certain
Credit and Guaranty Agreement referred to below

COMPLIANCE CERTIFICATE
FINANCIAL OFFICER CERTIFICATE

THE UNDERSIGNED HEREBY CERTIFIES TO ALL AGENTS AND LENDERS AS FOLLOWS:

1. am the Senior Vice President of Finance and Accounting of Allegiance Telecom, Inc., a Delaware corporation ("*Company*").

2. This certificate is the "Financial Officer Certification" required by Section 5.1(a) of that certain Credit and Guaranty Agreement, dated as of February 15, 2000, by and among Company, Allegiance Telecom Company Worldwide ("*Borrower*"), the Subsidiaries of Company (other than Borrower) party thereto, as Guarantors, Lenders, Goldman Sachs Credit Partners L.P., as Syndication Agent and Sole Lead Arranger, Toronto Dominion (Texas), Inc., as Administrative Agent and BankBoston, N.A. and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents. Capitalized terms used but not otherwise defined in this certificate have the meanings given to such terms in the Credit and Guaranty Agreement.

3. The attached financial statements fairly present, in all material respects, the financial condition of the Company and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated, subject to changes resulting from audit and normal year-end adjustments.

Allegiance Telecom, Inc.
By:______________________
Name: G. Clay Myers, Senior Vice President of Finance
and Accounting

TD 1112

Tom Lord
#169

Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Operations
(Dollars in millions)
(Unaudited)

	One Month ended October 31,			Ten Months Ended October 31,		
	2001	2001 Plan	2000	2001	2001 Plan	2000
Revenues	$ 44.8	$ 55.9	$ 25.5	$ 409.9	$ 433.1	$ 215.7
Network costs	25.7	25.9	16.1	203.4	213.7	119.7
Gross Margin	19.1	30.0	9.3	206.4	219.3	96.0
Gross Margin %	42.7%	53.7%	36.7%	50.4%	50.6%	44.5%
Selling, general and administrative expenses	33.2	37.1	26.0	305.1	308.8	200.5
Earnings before interest, taxes, depreciation and amortization	$(14.1)	$ (7.1)	$(16.6)	$ (98.7)	$ (89.4)	$(104.5)
Depreciation and amortization	25.0	22.4	13.6	207.3	199.9	97.5
Management ownership allocation charge	-	-	-	-	-	-
Noncash deferred compensation	0.4	0.7	0.8	3.4	18.1	12.8
Earnings before interest and taxes	$(39.6)	$ (30.2)	$(31.0)	$(309.4)	$ (307.4)	$(214.8)
Interest Income	1.2	0.9	4.4	15.9	-	49.5
Interest Expense	7.2	7.2	5.5	58.3	-	58.1
Interest, Net	(6.0)	(6.2)	(1.0)	(42.4)	(66.4)	(8.7)
Net income (loss)	$(45.6)	$ (36.4)	$(32.1)	$(351.8)	$ (373.8)	$(223.4)

TD 1113

Allegiance Telecom, Inc and Subsidiaries
Consolidated Balance Sheet
(Dollars in millions)
(Unaudited)

	October 31, 2001	October 31, 2001 Plan	October 31, 2000
ASSETS			
CURRENT ASSETS			
Cash and equivalents	$ 420.7	$ 164.3	$ 594.7
Short-term investments	58.4	-	124.8
Short-term investments, restricted	-	-	26.1
Accounts receivable, net	129.9	122.9	85.4
Prepaid expenses and other current assets	10.2	7.4	5.4
Total current assets	$ 619.2	$ 294.6	$ 836.3
Property and equipment, net	1,005.9	916.5	691.0
Debt issuance costs	19.7	19.7	24.5
Long-Term investments restricted	1.0	0.8	0.8
Goodwill, net of amortization	115.2	65.5	90.3
Other assets	45.1	21.8	25.7
Total assets	$ 1,806.1	$ 1,319.0	$ 1,668.6
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	$ 45.1	$ 51.8	$ 57.8
Accrued liabilities and other current liabilities	72.3	44.7	52.0
Total current liabilities	$ 117.4	$ 96.4	$ 109.8
Long-term debt	580.1	580.1	537.6
Other Long-term liabilities	422.8	23.2	22.0
STOCKHOLDERS' EQUITY			
Common stock, par value	1.1	1.1	1.1
Common Stock Warrants	1.9	1.9	2.1
Additional paid-in capital	1,793.0	1,729.9	1,700.3
Deferred compensation			-
Deferred management ownership allocation charge			-
Accumulated deficit	(1,110.2)	(1,113.6)	(704.3)
Total stockholders' equity	$ 685.8	$ 619.2	$ 999.2
Total liablities & stockholders' equity	$ 1,806.1	$ 1,319.0	$ 1,668.6

TD 1114

Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Cash Flows
(Dollars in millions)
(Unaudited)

	One Month Ended October 31,			Ten Months Ended October 31,		
	2001	2001 Plan	2000	2001	2001 Plan	2000
Cash Flows from Operating Activities						
Net (loss)	$(45.6)	$ (36.4)	$ (32.1)	$(351.8)	$ (357.3)	$(223.4)
Adjustments to reconcile net (loss) to cash used in operating activities						
Depreciation and amortization	25.0	22.4	13.6	207.3	199.9	97.5
Provision for uncollectible accounts receivable	3.2	2.5	3.9	28.2	18.0	20.1
Accretion of investments	(0.1)	-	(0.5)	(4.6)	(0.3)	(2.9)
Accretion of series B and 12 7/8% notes	3.8	3.8	3.4	35.8	35.8	31.9
Amortization of deferred debt issuance costs	0.1	0.1	0.1	1.1	0.7	6.9
Amortization of management ownership allocation charge and deferred compensation	0.4	0.7	0.8	3.4	18.1	12.8
Amortization of credit facility expense	0.3	0.3	0.3	2.8	2.8	2.6
Change in assets and liabilities						
(Increase) decrease in accounts receivable	(6.4)	(9.4)	(6.5)	(61.8)	(47.1)	(74.3)
(Increase) decrease in prepaid and other current asset	0.4	(0.4)	(0.0)	(3.5)	(1.8)	(2.2)
(Increase) decrease in other assets	(1.1)	0.0	0.1	(8.6)	(0.4)	0.5
Increase (decrease) in accounts payable	(20.0)	4.6	(35.6)	(40.3)	(29.1)	9.7
Increase (decrease) in accrued liabilities and other	1.0	5.7	(14.8)	12.4	(13.6)	15.6
Net Cash Used in Operations	$(38.9)	$ (6.1)	$ (67.4)	$(179.6)	$ (174.2)	$(105.2)
Cash Flows from Investing Activities						
Purchases of property and equipment	(18.5)	(19.0)	(31.6)	(337.5)	(328.9)	(374.9)
Capitalized Interest	(1.7)	-		(15.3)	-	-
Purchases of subsidiaries, net of cash acquired		-	(13.2)	(16.9)	-	(54.9)
Purchases of short term investments		-	(98.7)	(283.9)	-	(195.3)
Proceeds from redemption of investments	2.4	-	40.4	503.1	13.2	109.0
Reclass of Cash Equivalents to short term investments	1.7			1.7		
Net Cash Used in Investing Activities	$(16.2)	$ (19.0)	$(103.1)	$(148.8)	$ (315.7)	$(516.2)
Cash Flows from Financing Activities						
Deferred debt issuance costs	-	-	-		-	(12.3)
Proceeds from credit facility draw		-	-	350.0	-	-
Proceeds from issuance of common stock, net	1	-	1.5	7.0	-	728.6
Payments on Capital Lease Obligations	(0.5)	(0.3)	(0.4)	(4.3)	(3.8)	(2.5)
Other Financing Activities		-	-	0.2	-	-
Net Cash Provided from Financing Activities	$ 0.5	$ (0.3)	$ 1.1	$ 352.9	$ (3.8)	$ 713.8
Net increase (decrease) in cash	$(54.5)	$ (25.5)	$(169.4)	$ 24.5	$ (493.7)	$ 92.4
Cash, beginning of period	$475.2	$ 189.7	$ 764.0	$ 396.1	$ 658.0	$ 502.2
Cash, end of period	$420.7	$ 164.3	$ 594.7	$ 420.6	$ 164.3	$ 594.7

TD 1115

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
(Dollars in millions)
(Unaudited)

	Common Stock		Additional	Treasury Stock					
	Number of Shares	Amount	Paid -In Capital	Number of Shares	Amount	Warrants	Deferred Compensation	Accumulated Deficit	Total
BALANCE, September 30, 2001	114.9	1.1	1,793.6	(0.3)	(0.0)	1.9	(2.0)	(1,064.6)	729.9
Issue of stock, employee stock purchase plan	.4		1.						1.
Amortization of deferred compensation							.4		.4
Net loss							-	45.6 -	45.6
BALANCE, October 30, 2001	115.3	1.2	1,794.7 -	.3	-	1.9 -	1.6 -	1,110.2	685.8
Plan, October 30, 2001		1.1	1,729.9		(0.0)	1.9		(1,113.6)	619.2
BALANCE, October 30, 2000		1.1	1,700.3		(0.0)	2.1		(704.3)	999.2

TD 1116

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
(Dollars in millions)
(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Warrants	Deferred Compensation	Management Ownership Allocation Charge	Accumulated Deficit	Total
BALANCE, December 31, 2000	110.4	1.1	1,730.7	(0.3)	(0.0)	1.9	(16.5)	(0.2)	(758.4)	958.5
Issue of stock, employee stock purchase plan	.7	-	4.9	-	-	-	-	-	-	4.9
Option exercise	.3	-	2.1	-	-	-	-	-	-	2.1
HarvardNet Purchase	1.7	-	35.3	-	-	-	-	-	-	35.3
JumpNet Holdback Distribution	.1	-	1.3	-	-	-	-	-	-	1.3
Adgrafix Purchase	.6	-	14.1	-	-	-	-	-	-	14.1
Record Distribution of CTSnet Holdback	.1	-	1.2	-	-	-	-	-	-	1.2
Record purchase of Coast to Coast	1.3	-	16.4	-	-	-	-	-	-	16.4
Deferred Compensation	-	-	11.7	-	-	-	6.3	-	-	5.4
Amortization of deferred compensation	-	-	.2	-	-	-	8.5	.2	-	8.
Proceeds from Morgan Stanley	-	-	.2	-	-	-	-	-	-	.2
Net loss	-	-	-	-	-	-	-	-	351.8	351.8
BALANCE, October 30, 2001	116.3	1.2	1,794.7	.3	-	1.9	1.6	-	1,110.2	685.8
Plan, October 30, 2001		1.1	1,729.9		(0.0)	1.9			(1,113.6)	619.2
BALANCE, October 30, 2000		1.1	1,700.3		(0.0)	2.1			(704.3)	939.2

TD 1117

Allegiance Telecom, Inc.
Narrative Report for October 31, 2001

Overview

Allegiance Telecom, Inc. is a leading competitive provider of integrated telecommunications in major metropolitan areas across the United States. We offer an integrated set of telecommunications services including local, long distance, data and web hosting services. Our principal competitors are incumbent local exchange carriers, such as the regional Bell operating companies, as well as other integrated communications providers.

Results of Operations —Ten Months Ended October 31, 2001 Compared With Ten Months Ended October 31, 2000

For the month ended October 31, 2001 and 2000, we generated revenues of approximately $44.8 million and $25.5 million, respectively. For the ten months ended October 31, 2001 and 2000, we generated revenues of approximately $409.9 million and $215.7 million, respectively. The increase in revenue is attributable to an increase in number of customers and the number of lines installed. For the ten months ended October 31, 2001 and 2000, the number of lines installed increased to 1.0 million lines and 546,913 lines, respectively. Gross margin has increased from approximately 36.7% for the month ended October 31, 2000 to approximately 42.7% for the month ended October 31, 2001. Gross margin has increased from approximately 44.5% for the ten months ended October 31, 2000 to approximately 50.4% for the ten months ended October 31, 2001. We expect our gross margins to continue to improve as our revenues increase and as we realize cost efficiencies in our network expenses.

During the third quarter of 2001, we acquired the stock of Coast to Coast Telecommunications, Inc., a provider of local and long-distance telecommunications services. During the first quarter of 2001, we acquired the stock of Adgrafix Corporation and certain assets of HarvardNet, Inc., both Internet-based, web-hosting applications specialists. We have utilized the purchase method of accounting for these acquisitions. Accordingly, we have recognized the revenues earned since the closing of each of these acquisitions in our condensed consolidated statement of operations for the ten months ended October 31, 2001.

For the month ended October 31, 2001 and 2000, network expenses were $25.7 million and $16.1 million, respectively. For the ten months ended October 31, 2001 and 2000, network expenses were $203.4 million and $119.7 million, respectively. The increase in network expenses is consistent with the deployment of our networks and initiation and growth of our services. Network expenses include the cost of leasing local loop lines which connect our customers to our network; the cost of leasing high-capacity digital lines that interconnect our network with the networks of the incumbent local exchange carriers; the cost of leasing high-capacity digital lines that connect our switching equipment to our transmission equipment located in the central offices of the incumbent local exchange carrier; the cost of expanding our network to additional colocation sites within a market; the cost of completing local and long distance calls originated by our customers; the cost of leasing space in incumbent local exchange carrier central offices for colocating our transmission equipment; and the cost of leasing our nationwide Internet network.

When we open new markets, we incur significant general and administrative expenses and network expenses before we begin to generate revenue from operations. Many of the network expenses, such as for transport facilities and colocation rent and power charges, are fixed costs that we do not recover until we build up a sufficient volume of traffic from customers. Consequently, as we continue to open new markets throughout 2001, we will continue to generate operating losses and do not expect to generate positive cash flow from operations until some time in 2002.

Selling, general and administrative expenses increased to $33.2 million for the month ended October 31, 2001 from $26.0 million for the month ended October 31, 2000. Selling, general and administrative expenses increased to $305.1 million for the ten months ended October 31, 2001 from $200.5 million for the ten months ended October 31, 2000, primarily due to the growth of our business. Selling, general and administrative expenses include salaries and related personnel costs, administration and administration related facilities costs, sales and marketing costs, customer care and billing costs, and professional fees. The number of employees increased to 3,905 as of October 31, 2001, from 3,139 as of October 31, 2000.

We amortized $0.2 million of the deferred management ownership allocation charge, a non-cash charge to income, for the ten months ended October 31, 2001. The same charge for the ten months ended October 31, 2000 was $6.1 million. Our original private equity fund investors and original management team investors owned 95.0% and 5.0%, respectively, of the ownership interests of Allegiance Telecom, LLC, an entity that owned substantially all of our outstanding capital stock prior to our initial public offering of common stock. As a result of that offering, the assets of Allegiance Telecom, LLC, which consisted almost entirely of such capital stock, were distributed to the original fund investors and management investors in accordance with the Allegiance Telecom, LLC limited liability company agreement. This agreement provided that the equity allocation between the fund investors and management investors would be 66.7% and 33.3%, respectively, based upon the valuation implied by the initial public offering. We recorded the increase in the assets of Allegiance Telecom, LLC allocated to the management investors as a $193.5 million increase in additional paid-in capital. This transaction was recorded during the third quarter of 1998. Of this charge, we recorded $122.5 million as a non-cash, non-recurring charge to operating expense and $71.0 million as a deferred management ownership allocation charge. This deferred charge was fully amortized as of March 31, 2001.

For the ten months ended October 31, 2001 and 2000, we recognized $3.2 million and $6.7 million, respectively, of amortization of deferred compensation expense. Such deferred compensation was recorded in connection with membership units of Allegiance Telecom, LLC sold to certain management employees and options granted to certain employees under our 1997 stock option plan and 1998 stock incentive plan.

For the month ended October 31, 2001 and 2000, depreciation expense was $18.8 million and $10.3 million, respectively. For the ten months ended October 31, 2001 and 2000, depreciation expense was $151.4 million and $53.9 million, respectively. Such increase was consistent with the deployment of our networks and initiation of services in 34 markets as of October 31, 2001.

In connection with the acquisitions completed to date, we assigned an aggregate of $46.1 million of the purchase price to customer lists and workforces. We also recorded an aggregate of $188.4 million of goodwill. Each of these intangible assets is being amortized over their estimated useful lives of three years. For the ten months ending October 31, 2001 and 2000, we recorded $45.2 million and $15.3 million of amortization for goodwill and $10.7 million and $2.9 million of amortization of customer lists and workforces, respectively.

TD 1119

For the month ended October 31, 2001 and 2000, interest expense was $7.2 million and $5.5 million, respectively. For the ten months ended October 31, 2001 and 2000, interest expense was $58.3 million and $58.1 million, respectively. Interest expense reflects the accretion of the 11 3/4% notes and related amortization of the original issue discount, the amortization of the original issue discount on the 12 7/8% notes, and the interest charges and amortization of deferred debt issuance costs related to our $500 million senior secured credit facilities. The amount of interest capitalized for the ten months ended October 31, 2001 was $15.3 million. For the same period in 2000, the amount was $11.9 million, respectively. Interest income for the ten months ended October 31, 2001 was $15.9 million. Interest income for the ten months ended October 31, 2000 was $49.5 million. Additionally, during the ten months ended October 31, 2001, we recorded impairment losses against interest income related to interest-bearing investment securities deemed to have a permanent decline in fair value.

Our net loss for the month ended October 31, 2001 and the month ended October 31, 2000, after amortization of the non-cash management ownership allocation charge and amortization of deferred compensation, was $45.6 million and $32.1 million, respectively. Our net loss for the ten months ended October 31, 2001 and the ten months ended October 31, 2000, after amortization of the non-cash management ownership allocation charge and amortization of deferred compensation, was $351.8 million and $223.4 million, respectively.

Many securities analysts use the measure of earnings before deducting interest, taxes, depreciation and amortization, also commonly referred to as "EBITDA" as a way of measuring the performance of a company. EBITDA is not derived pursuant to generally accepted accounting principles, and therefore should not be construed as an alternative to operating income (loss), as an alternative to cash flows from operating activities, or as a measure of liquidity. For the ten months ended October 31, 2001 and 2000, we had adjusted EBITDA losses of $98.7 million and $104.5 million, respectively. In calculating adjusted EBITDA, we also exclude the non-cash charges to operations for the management ownership allocation charge and deferred compensation expense totaling $3.4 million for the ten months ended October 31, 2001 and $12.8 million for the ten months ended October 31, 2000.

We expect to continue to experience operating losses and negative adjusted EBITDA as a result of our development and market expansion activities. We typically do not expect to achieve positive adjusted EBITDA in any market until at least its third year of operation.

TD 1120

Liquidity and Capital Resources

Our financing plan is predicated on the pre-funding of each market's expansion to positive free cash flow. By using this approach, we avoid being in the position of seeking additional capital to fund a market after we have already made a significant capital investment in that market. We believe that by raising all required capital prior to making any commitments in a market, we can raise capital on more favorable terms and conditions.

We do not begin to develop a new market until we have raised the capital that we project to be necessary to build and operate our network in the market to the point at which operating cash flow from the market is sufficient to fund its ongoing operating costs and capital expenditures. We believe that all of our 36 target markets are now fully funded in this manner. We also believe that our existing cash on hand, together with cash from our committed $500 million of senior secured credit facilities, are sufficient to fully fund our operations, planned capital investments and debt service requirements during the next twelve months and until such time as we have positive cash flow from operations on a consolidated basis to fund these items.

For the ten months ended October 31, 2001 and 2000, we made capital expenditures of $337.5 million and $363.0 million, respectively. We also used capital during these periods to fund our operations.

We have purchased dedicated fiber rings in 24 of our markets. As of October 30, 2001, we had dedicated fiber rings in operation in 14 markets including Austin, Chicago, Dallas, Denver, Ft. Worth, Houston, New York City, Northern New Jersey, Philadelphia, Portland, St. Louis, Seattle, Washington, D.C., and White Plains. The cost of these rings includes both the amounts we pay to the fiber ring provider as well as the cost of the electronic equipment that we purchase and install on the rings to make them operational.

As of October 31, 2001, we had approximately $479.1 million of unrestricted cash and short-term investments.

On February 3, 1998, we raised gross proceeds of approximately $250.5 million in an offering of 445,000 units, each unit consisting of one 11 3/4% senior discount note and one redeemable warrant. Net proceeds of approximately $240.7 million were received from that offering. The 11 3/4% notes have a principal amount at maturity of $445.0 million and an effective interest rate of 12.21%. The 11 3/4% notes mature on February 15, 2008. From and after February 15, 2003, interest on such notes will be payable semiannually in cash at the rate of 11 3/4% per annum. The accretion of original issue discount will cause an increase in indebtedness from October 31, 2001 to February 15, 2003 of $66.7 million.

We raised net proceeds of approximately $124.8 million in our offering of the 12 7/8% senior discount notes early in the third quarter of 1998. The 12 7/8% notes mature on May 15, 2008. Interest on these notes is payable in cash semiannually, commencing November 15, 1998. The 12 7/8% notes were sold at less than par, resulting in an effective rate of 13.24%, and the value of the 12 7/8% notes is being accreted, using the effective interest method, from the $200.9 million gross proceeds realized at the time of the sale to the aggregate value at maturity, $205.0 million, over the period ending May 15, 2008. The accretion of original issue discount will cause an increase in indebtedness from October 31, 2001 to May 15, 2008 of $3.2 million.

In February 2000, we closed on $500.0 million of new senior secured credit facilities, which replaced the $225 million revolving credit facility. These new senior secured credit facilities consist of a $350.0 million revolving credit facility and a $150.0 million delayed draw term loan facility. These credit facilities are available, subject to satisfaction of certain terms and conditions, to provide purchase money financing for network build-out, including the cost to develop, acquire and integrate the necessary operations support and back office systems, as well as for additional dark fiber purchases and central office colocations. Interest on amounts drawn is variable, based on leverage ratios, and is expected to be the London Interbank Offered Rate + 3.25%. The initial commitment fee on the unused portion of these credit facilities will be 1.5% per annum, paid quarterly and will be reduced based upon usage. These credit facilities contain certain representations, warranties, covenants and events of default customary for credit of this nature and otherwise agreed upon by the parties.

During September, 2001, we elected to draw down on the $150 million delayed draw term loan due December 31, 2006 and a $200 million revolving loan, also due on December 31, 2006, for a total of $350 million. The initial interest rate is 6.28 percent.

Dup

facsimile transmittal

To:	Tracey Crawford/Suzanne Small, TD Securities	Fax:	1-212-827-7261
	1-212-827-7728		
From:	Mark Huck, Allegiance Telecom, Inc.	Date:	02/01/02
Re:	December 31, 2001 ME Covenant Package	Pages:	
CC:			

☐ Urgent ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

CONFIDENTIAL: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change.

TD 1306

Tom Lord
170

CONFIDENTIAL
For use only by the Lenders under that certain
Credit and Guaranty Agreement referred to below

COMPLIANCE CERTIFICATE
FINANCIAL OFFICER CERTIFICATE

THE UNDERSIGNED HEREBY CERTIFIES TO ALL AGENTS AND LENDERS AS FOLLOWS:

1. I am the Senio Vice President of Finance and Accounting of Allegiance Telecom, Inc., a Delaware corpc ration ("*Company*").

2. This certificate s the "Financial Officer Certification" required by Section 5.1(a) of that certain Credit and Gua anty Agreement, dated as of February 15, 2000, by and among Company, Allegiance Tele com Company Worldwide ("*Borrower*"), the Subsidiaries of Company (other than Borrower) party thereto, as Guarantors, Lenders, Goldman Sachs Credit Partners L.P., as Syndication Agent and Sole Lead Arranger, Toronto Dominion (Texas), Inc., as Administrative Agent and BankBoston, N.A. and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents. Capitalized terms used but not otherwise defined in this certificate have the meanings given to such terms in the Credit and Guaranty Agreement.

3. The attached financial statements fairly present, in all material respects, the financial condition of the Company and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated, subject to changes resulting from audit and normal year-end adjustments.

Allegiance Telecom, Inc.
By: ______________________
Name: G. Clay Myers, Senior Vice President of Finance
and Accounting

TD 1307

Allegiance Telecom, Inc.
Narrative Report for December 31, 2001

Overview

Allegiance Telecom, Inc. is a leading competitive provider of integrated telecommunications in major metropolitan areas across the United States. We offer an integrated set of telecommunications services including local, long distance, data and web hosting services. Our principal competitors are incumbent local exchange carriers, such as the regional Bell operating companies, as well as other integrated communications providers.

Results of Operations — Twelve Months Ended December 31, 2001 Compared With Twelve Months Ended December 31, 2000

The attached financial statements fairly present, in all material respects, the financial condition of the Company and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated, subject to changes resulting from audit and normal year-end adjustments.

For the month ended December 31, 2001 and 2000, we generated revenues of approximately $61.7 million and $40.2 million, respectively. For the Twelve months ended December 31, 2001 and 2000, we generated revenues of approximately $516.6 million and $285.2 million, respectively. The increase in revenue is attributable to an increase in number of customers and the number of lines installed. Twelve. Gross margin has decreased from approximately 65.0% for the month ended December 31, 2000 to approximately 59.0% for the month ended December 31, 2001. Gross margin has increased from approximately 47.0% for the Twelve months ended December 31, 2000 to approximately 51.0% for the Twelve months ended December 31, 2001.

During the fourth quarter we acquired certain assets of Intermedia Business Internet, a business internet service provider. During the third quarter of 2001, we acquired the stock of Coast to Coast Telecommunications, Inc., a provider of local and long-distance telecommunications services. During the first quarter of 2001, we acquired the stock of Adgrafix Corporation and certain assets of HarvardNet, Inc., both Internet-based, web-hosting applications specialists. We have utilized the purchase method of accounting for these acquisitions. Accordingly, we have recognized the revenues earned since the closing of each of these acquisitions in our condensed consolidated statement of operations for the Twelve months ended December 31, 2001.

For the month ended December 31, 2001 and 2000, network expenses were $25.3 million and $14.1 million, respectively. For the Twelve months ended December 31, 2001 and 2000, network expenses were $252.0 million and $150.7 million, respectively. The increase in network expenses is consistent with the deployment of our networks and initiation and growth of services. Network expenses include the cost of leasing local loop lines which connect our customers to our network; the cost of leasing high-capacity digital lines that interconnect our network with the networks of the incumbent local exchange carriers; the cost of leasing high-capacity digital lines that connect our switching equipment to our transmission equipment located in the central offices of the incumbent local exchange carrier; the cost of expanding our network to additional colocation sites within a market; the cost of completing local and long distance calls originated by our customers; the cost of leasing space in incumbent local exchange carrier central offices for colocating our transmission equipment; and the cost of leasing our nationwide Internet network.

TD 1308

When we open new ma kets, we incur significant general and administrative expenses and network expenses before we begin o generate revenue from operations. Many of the network expenses, such as for transport facilities and colocation rent and power charges, are fixed costs that we do not recover until we build up a sufficient volun e of traffic from customers. Consequently, as we continue to open new markets throughout 2001, we will continue to generate operating losses and do not expect to generate positive cash flow from operations until some time in 2002.

Selling, general and administrative expenses increased to $35.5 million for the month ended December 31, 2001 from $24.9 million for the month ended December 31, 2000. Selling, general and administrative expenses increased to $37[illegible].3 million for the Twelve months ended December 31, 2001 from $252.4 million for the Twelve months ended December 31, 2000, primarily due to the growth of our business. Selling, general and administrative expenses include salaries and related personnel costs, administration and administration related facilities costs, sales and marketing costs, customer care and billing costs, and professional fees. The number of employees increased to 4,140 as of December 31, 2001, from 3,249 as of December 31, 2000.

We amortized $0.2 million of the deferred management ownership allocation charge, a non-cash charge to income, for the Twelve months ended December 31, 2001. The same charge for the Twelve months ended December 31, 2000 was $6.5 million. Our original private equity fund investors and original management team investors owned 95.0% and 5.0%, respectively, of the ownership interests of Allegiance Telecom, LLC, an entity that owned substantially all of our outstanding capital stock prior to our initial public offering of common stock. As a result of that offering, the assets of Allegiance Telecom, LLC, which consisted almost entirely of such capital stock, were distributed to the original fund investors and management investors in accordance with the Allegiance Telecom, LLC limited liability company agreement. This agreement provided that the equity allocation between the fund investors and management investors would be 66.7% and 33.3%, respectively, based upon the valuation implied by the initial public offering. We recorded the increase in the assets of Allegiance Telecom, LLC allocated to the management investors as a $193.5 million increase in additional paid-in capital. This transaction was recorded during the third quarter of 1998. Of this charge, we recorded $122.5 million as a non-cash, non-recurring charge to operating expense and $71.0 million as a deferred management ownership allocation charge. This deferred charge was fully amortized as of March 31, 2001.

For the Twelve months ended December 31, 2001 and 2000, we recognized $4.1 million and $10.1 million, respectively, of amortization of deferred compensation expense. Such deferred compensation was recorded in connection with membership units of Allegiance Telecom, LLC sold to certain management employees and options granted to certain employees under our 1997 stock option plan and 1998 stock incentive plan.

For the month ended December 31, 2001 and 2000, depreciation expense was $18.5 million and $13.4 million, respectively. For the Twelve months ended December 31, 2001 and 2000, depreciation expense was $188.2 million and $1[illegible]4.2 million, respectively. Such increase was consistent with the deployment of our networks and initiation of services in 36 markets as of December 31, 2001.

In connection with the acquisitions completed to date, we assigned an aggregate of $46.1 million of the purchase price to customer lists and workforces. We also recorded an aggregate of $190.7 million of goodwill. Each of these intangible assets and the goodwill acquired prior to June 30, 2001 is being amortized over their estimated useful lives of three years. For the Twelve months ending December 31, 2001 and 2000, we recorded $55.2 million and $22.3 million of amortization for goodwill and $13.2 million and $4.4 million of amortization of customer lists and workforces, respectively. Beginning January 1, 2002, we will no longer record amortization of goodwill in accordance with recently issued accounting pronouncements. Our purchase price allocation for the acquisitions made in 2001 is subject to post acquisition due diligence of the acquired entities and may be adjusted as additional information is obtained.

For the month ended December 31, 2001 and 2000, interest expense was $7.7 million and $5.6 million, respectively. For the Twelve months ended December 31, 2001 and 2000, interest expense was $74.3 million and $69.2 million, respectively. Interest expense reflects the accretion of the 11 3/4% notes and related amortization of the original issue discount, the amortization of the original issue discount on the 12 7/8% notes, and the interest charges and amortization of deferred debt issuance costs related to our $500 million senior secured credit facilities. The amount of interest capitalized for the Twelve months ended December 31, 2001 was $16.9 million. For the same period in 2000, the amount was $14.4 million, respectively. Interest income for the Twelve months ended December 31, 2001 was $17.9 million. Interest income for the Twelve months ended December 31, 2000 was $57.0 million. Additionally, during the Twelve months ended December 31, 2001, we recorded impairment losses against interest income related to interest-bearing investment securities deemed to have a permanent decline in fair value.

Our net loss for the month ended December 31, 2001 and the month ended December 31, 2000, after amortization of the non-cash management ownership allocation charge and amortization of deferred compensation, was $31.0 million and $21.7 million, respectively. Our net loss for the Twelve months ended December 31, 2001 and the Twelve months ended December 31, 2000, after amortization of the non-cash management ownership allocation charge and amortization of deferred compensation, was $426.0 million and $277.6 million, respectively.

Many securities analysts use the measure of earnings before deducting interest, taxes, depreciation and amortization, also commonly referred to as "EBITDA" as a way of measuring the performance of a company. EBITDA is not derived pursuant to generally accepted accounting principles, and therefore should not be construed as an alternative to operating income (loss), as an alternative to cash flows from operating activities, or as a measure of liquidity. For the Twelve months ended December 31, 2001 and 2000, we had adjusted EBITDA losses of $108.6 million and $117.9 million, respectively. In calculating adjusted EBITDA, we also exclude the non-cash charges to operations for the management ownership allocation charge and deferred compensation expense totaling $4.3 million for the Twelve months ended December 31, 2001 and $15.6 million for the Twelve months ended December 31, 2000.

We expect to continue to experience operating losses and negative adjusted EBITDA as a result of our development and market expansion activities. We typically do not expect to achieve positive adjusted EBITDA in any market until at least its third year of operation.

TD 1310

Liquidity and Capital Resources

Our financing plan is predicated on the pre-funding of each market's expansion to positive free cash flow. By using this approach, we avoid being in the position of seeking additional capital to fund a market after we have already made a significant capital investment in that market. We believe that by raising all required capital prior to making any commitments in a market, we can raise capital on more favorable terms and conditions.

We do not begin to develop a new market until we have raised the capital that we project to be necessary to build and operate our network in the market to the point at which operating cash flow from the market is sufficient to fund its ongoing operating costs and capital expenditures. We believe that all of our 36 target markets are now fully funded in this manner. We also believe that our existing cash on hand, together with cash from our committed $500 million of senior secured credit facilities, are sufficient to fully fund our operations, planned capital investments and debt service requirements during the next twelve months and until such time as we have positive cash flow from operations on a consolidated basis to fund these items.

For the Twelve months ended December 31, 2001 and 2000, we made capital expenditures of $362.9 million and $430.8 million, respectively. We also used capital during these periods to fund our operations.

We have purchased dedicated fiber rings in 24 of our markets. As of December 31, 2001, we had dedicated fiber rings in operation in 18 markets including Austin, Chicago, Dallas, Denver, Ft. Worth, Houston, Long Island, New York City, Northern New Jersey, Philadelphia, Pittsburgh, Portland, St. Louis, San Antonio, San Diego, Seattle, Washington, D.C., and White Plains. The cost of these rings includes both the amounts we pay to the fiber ring provider as well as the cost of the electronic equipment that we purchase and install on the rings to make them operational.

As of December 31, 2001, we had approximately $401.6 million of unrestricted cash and short-term investments.

On February 3, 1998, we raised gross proceeds of approximately $250.5 million in an offering of 445,000 units, each unit consisting of one 11 3/4% senior discount note and one redeemable warrant. Net proceeds of approximately $240.7 million were received from that offering. The 11 3/4% notes have a principal amount at maturity of $445.0 million and an effective interest rate of 12.21%. The 11 3/4% notes mature on February 15, 2008. From and after February 15, 2003, interest on such notes will be payable semiannually in cash at the rate of 11 3/4% per annum. The accretion of original issue discount will cause an increase in indebtedness from December 31, 2001 to February 15, 2003 of $59.2 million.

We raised net proceeds of approximately $124.8 million in our offering of the 12 7/8% senior discount notes early in the third quarter of 1998. The 12 7/8% notes mature on May 15, 2008. Interest on these notes is payable in cash semiannually, commencing December 15, 1998. The 12 7/8% notes were sold at less than par, resulting in an effective rate of 13.24%, and the value of the 12 7/8% notes is being accreted, using the effective interest method, from the $200.9 million gross proceeds realized at the time of the sale to the aggregate value at maturity, $205.0 million, over the period ending May 15, 2008. The accretion of original issue discount will cause an increase in indebtedness from December 31, 2001 to May 15, 2008 of $3.2 million.

TD 1311

In February 2000, we closed on $500.0 million of new senior secured credit facilities, which replaced the $225 million revolving credit facility. These new senior secured credit facilities consist of a $350.0 million revolving credit facility and a $150.0 million delayed draw term loan facility. These credit facilities are available, subject to satisfaction of certain terms and conditions, to provide purchase money financing for network build-out, including the cost to develop, acquire and integrate the necessary operations support and back office systems, as well as for additional dark fiber purchases and central office colocations. Interest on amounts drawn is variable, based on leverage ratios, and is expected to be the London Interbank Offered Rate + 3.25%. The initial commitment fee on the unused portion of these credit facilities will be 1.5% per annum, paid quarterly and will be reduced based upon usage. These credit facilities contain certain representations, warranties, covenants and events of default customary for credit of this nature and otherwise agreed upon by the parties.

During September, 2001, we elected to draw down on the $150 million delayed draw term loan due December 31, 2006 and a $200 million revolving loan, also due on December 31, 2006, for a total of $350 million. The initial interest rate is 6.28 percent.

TD 1312

Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Operations
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement.
These financial reports are unaudited and are subject to change

	One Month ended December 31,			Twelve Months Ended December 31,		
	2001	2001 Plan	2000	2001	2001 Plan	2000
Revenues	$ 61.7	$ 59.6	$ 40.2	$ 516.6	$ 550.1	$ 285.2
Network costs	25.3	27.0	14.1	251.9	267.4	150.7
Gross Margin	36.4	32.5	26.1	264.7	282.7	134.5
Gross Margin %	59.0%	54.6%	65.0%	51.2%	51.4%	47.2%
Selling, general and administrative expenses	35.5	38.5	24.9	373.3	384.5	252.4
Earnings before interest, taxes, depreciation and amortization	$ 0.9	$ (6.0)	$ 1.2	$(108.6)	$ (101.8)	$(117.9)
Depreciation and amortization	24.9	22.7	17.9	256.7	245.1	130.8
Noncash deferred compensation	0.4	0.7	3.0	4.3	19.4	16.6
Earnings before interest and taxes	$(24.4)	$ (29.4)	$(19.7)	$(369.6)	$ (366.3)	$(265.3)
Interest Income	1.1	0.7	3.6	17.9	1.5	57.0
Interest Expense	7.7	7.2	5.6	74.3	14.4	69.2
Interest, Net	(6.6)	(6.5)	(2.0)	(56.3)	(12.8)	(12.3)
Net income (loss)	$(31.0)	$ (35.9)	$(21.7)	$(425.9)	$ (379.2)	$(277.6)

TD 1313

Allegiance Telecom, Inc and Subsidiaries
Consolidated Balance Sheet
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change

	December 31, 2001	December 31, 2001 Plan	December 31, 2000
ASSETS			
CURRENT ASSETS			
Cash and equivalents	$ 374.1	$ 112.8	$ 396.1
Short-term investments	27.5	-	261.9
Short-term investments, restricted	-	-	13.0
Accounts receivable, net	139.2	123.1	93.8
Prepaid expenses and other current assets	19.8	7.6	5.6
Total current assets	$ 560.6	$ 243.5	$ 770.3
Property and equipment, net	1,004.6	901.2	744.9
Debt issuance costs	19.0	18.9	23.7
Long-Term investments restricted	1.0	0.8	0.8
Goodwill, net of amortization	107.5	58.6	100.2
Other assets	56.7	20.3	28.9
Total assets	$ 1,749.4	$ 1,243.3	$ 1,668.8
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	$ 50.1	$ 48.7	$ 80.8
Accrued liabilities and other current liabilities	70.2	35.5	58.3
Total current liabilities	$ 120.2	$ 84.2	$ 139.1
Long-term debt	587.6	587.6	544.3
Other Long-term liabilities	427.6	22.7	27.0
STOCKHOLDERS' EQUITY			
Common stock, par value	1.1	1.1	1.1
Common Stock Warrants	1.9	1.9	1.9
Additional paid-in capital	1,795.3	1,731.3	1,713.9
Accumulated deficit	(1,184.3)	(1,185.4)	(758.4)
Total stockholders' equity	$ 614.0	$ 548.8	$ 958.5
Total liablities & stockholders' equity	$ 1,749.4	$ 1,243.3	$ 1,668.8

TD 1314

Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Cash Flows
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement.
These financial reports are unaudited and are subject to change

	One Month Ended December 31, 2001	One Month Ended December 31, 2001 Plan	One Month Ended December 31, 2000	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2001 Plan	Twelve Months Ended December 31, 2000
Cash Flows from Operating Activities						
Net (loss)	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Adjustments to reconcile net (loss) to cash used in operating activities						
Depreciation and amortization	24.9	22.7	17.9	256.7	245.1	130.8
Provision for uncollectible accounts receivable	5.6	2.8	3.3	37.2	23.4	23.9
Accretion of investments	(0.4)	-	(1.4)	(5.1)	(0.3)	(5.4)
Accretion of series B and 12 7/8% notes	3.8	3.8	3.4	43.3	43.3	38.6
Amortization of deferred debt issuance costs	0.1	0.1	0.1	1.4	0.9	7.1
Amortization of management ownership allocation charge and deferred compensation	0.4	0.7	3.0	4.3	19.4	16.6
Amortization of credit facility expense	0.3	0.3	0.3	3.4	3.4	3.2
Change in assets and liabilities						
(Increase) decrease in accounts receivable	(6.8)	(3.1)	(6.8)	(80.1)	(52.7)	(88.2)
(Increase) decrease in prepaid and other current asset	(10.7)	(0.2)	0.3	(13.1)	(2.1)	(2.3)
(Increase) decrease in other assets	1.7	0.0	(0.8)	(31.0)	(0.3)	(0.4)
Increase (decrease) in accounts payable	4.8	0.3	30.9	(36.0)	(32.1)	31.4
Increase (decrease) in accrued liabilities and other	4.4	(0.6)	(12.7)	7.7	(22.7)	23.4
Net Cash Used in Operations	$ (2.9)	$ (9.1)	$ 16.0	$ (217.1)	$ (203.7)	$ (96.6)
Cash Flows from Investing Activities						
Purchases of property and equipment	(17.9)	(14.9)	(23.7)	(362.9)	(350.4)	(445.2)
Capitalized Interest	(1.0)	-		(16.9)	-	-
Purchases of subsidiaries, net of cash acquired	(12.0)	-	(2.9)	(28.9)	-	(69.8)
Purchases of short term investments		-	-	(283.9)	-	(329.9)
Proceeds from redemption of investments	12.7	-	-	536.2	13.2	122.3
Reclass of Cash Equivalents to short term investments	(0.4)			-		-
Net Cash Used in Investing Activities	$ (18.6)	$ (14.9)	$ (36.6)	$ (156.4)	$ (337.2)	$ (722.6)
Cash Flows from Financing Activities						
Deferred debt issuance costs	(0.0)	-	-	(0.2)		(12.3)
Proceeds from credit facility draw		-	-	350.0		-
Proceeds from issuance of common stock, net	0	-	0.1	7.1		728.8
Payments on Capital Lease Obligations	(0.7)	(0.3)	(0.4)	(5.6)	(4.3)	(3.3)
Other Financing Activities		-	-	0.2	-	-
Net Cash Provided from Financing Activities	$ (0.7)	$ (0.3)	$ (0.3)	$ 351.5	$ (4.3)	$ 713.1
Net increase (decrease) in cash	$ (22.2)	$ (24.3)	$ (20.9)	$ (22.0)	$ (545.2)	$ (166.1)
Cash, beginning of period	$ 396.3	$ 137.1	$ 417.0	$ 396.1	$ 658.0	$ 502.2
Cash, end of period	$ 374.1	$ 112.8	$ 396.1	$ 374.1	$ 112.8	$ 396.1

TD 1315

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Warrants	Deferred Compensation	Management Ownership Allocation Charge	Accumulated Deficit	Total
BALANCE, December 31, 2000	110.4	1.1	1,730.7	(0.3)	(0.0)	1.9	(16.5)	(0.2)	(758.4)	958.5
Issue of stock, employee stock purchase plan	.7		4.9		-					[illegible]
Option exercises	.4	-	2.2	-	-			-	-	2.2
Common Stock issued for business acquisitions	4.1	-	83.7	-			-	-	-	83.7
Deferred Compensation	-		(11.6)	-	-		11.6	-	-	-
Amortization of deferred compensation	-	-	-	-	-	-	4.2	.2	-	4.4
Other	-	-	.1	-	-	-	-	-	-	.1
Net loss									(425.9)	(425.9)
BALANCE, December 31, 2001	115.3	1.2	[illegible]	(0.3)	-	1.9	(0.8)		(1,184.3)	614.0
Plan, December 31, 2001		1.1	1,731.3		(0.0)	1.8			(1,184.4)	648.9
BALANCE, December 31, 2001		1.1	1,730.7		(0.0)	1.9	(16.5)	(0.2)	(758.4)	958.5

TD 1316

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Warrants	Deferred Compensation	Management Ownership Allocation Charge	Accumulated Deficit	Total
BALANCE, November 30, 2001	115.3	1.2	1,794.7	(0.3)	-	1.9	(1.2)	-	(1,153.3)	643.1
Stock Option Exercise	-	-	.1							.1
Common Stock issued for business acquisitions	.2	-	1.4							1.4
Amortization of deferred compensation							.4			.4
Net loss									(31.0)	(31.0)
BALANCE, December 31, 2001	115.5	1.2	1,798.1	(0.3)	-	1.9	(0.8)	-	(1,184.3)	614.0
Plan, December 31, 2001		1.1	1,731.3		(0.0)	1.9			(1,185.4)	548.8
BALANCE, December 31, 2000		1.1	1,730.7		(0.0)	1.9	(16.5)	(0.2)	(758.4)	958.5

TD 1317

FAX

cc- J. Crawford ✓

TO: Toroonto Dominion/Houston - Neva Nesbin

Company: Toronto Dominion- Houston Agenc

Fax Number: 17139519921

Phone Number: 7136538241

FROM: Huck, Mark

Fax Number: 214.261.8760

Phone Number: 469.259.2150

NOTES:

CONFIDENTIAL: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change.

Date and time of transmission: Tuesday, April 30, 2002 6:10:12 PM

Number of pages including this cover sheet: 09

TD 0925

Tom Lord #171

This document was faxed using a RightFAX v7.0 electronic document delivery solution. RightFAX

ENT'D MAY 01 2002 CLM

Allegiance Telecom, Inc.
Narrative Report for March 31, 2002

Overview

Allegiance Telecom, Inc. is a leading competitive provider of integrated telecommunications in major metropolitan areas across the United States. We offer an integrated set of telecommunications services including local, long distance, data and web hosting services. Our principal competitors are incumbent local exchange carriers, such as the regional Bell operating companies, as well as other integrated communications providers.

Results of Operations — One month and three months ended March 31, 2002 compared with March 2002 Plan

The attached unaudited financial statements fairly present, in all material respects, the financial condition of the Company and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated.

Lines Installed

For the month ended March 31, 2002, we installed 58,007 net new lines in service, bringing the total installed base of lines to 1,139,403. New line installs included 11,050 new voice lines versus a plan of 19,561 new voice lines. Net installs for voice lines are lower than plan primarily due to higher than planned disconnect rates. Disconnect rates for the month of March 2002 were 4.5% versus a plan of 1.9%. New data lines installed in March 2002 totaled 46,957 lines versus a plan of 28,108. Net installs for data lines were higher than plan for the month of March 2002 due to higher than planned installs for Genuity. Many of these installs for Genuity had been planned for January and February 2002, but were rescheduled to March 2002.

Revenue

For the month ended March 31, 2002, revenues were $55.6 million. For the three months ended March 31, 2002, we generated revenues of approximately $162.1 million. Revenues planned for the one month and three months ended March 31, 2002 were approximately $58.8 million and $168.5 million, respectively. The variance to plan is primarily the result of lower than planned voice line installs resulting in lower revenues in the voice product line. The actual local voice revenues for March 2002 were approximately $28.4 million compared to planned local voice revenues of $32.6 million. Data revenues were $23.5 million versus a plan of $22.9 million. Long distance revenues were $3.7 million versus a plan of $3.3 million for the month of March 2002 and $10.7 million versus a plan of $ 9.5 million for the three months ended March 2002.

Network Expense

For the month ended March 31, 2002, network expense was $25.7 million. For the three months ended March 31, 2002, network expense was $82.1 million. The increase in network expense is consistent with the deployment of our networks and growth of the installed customer base. Planned network expenses for the one month and three months ended March 31, 2002 were approximately $29.7 million and $87.0, respectively. The favorable variance to Plan of $4.0 million was due to slightly lower

lines than planned.

Network expense includes the cost of leasing local loop lines which connect our customers to our network; the cost of leasing high-capacity digital lines that interconnect our network with the networks of the incumbent local exchange carriers; the cost of leasing high-capacity digital lines that connect our switching equipment to our transmission equipment located in the central offices of the incumbent local exchange carrier; the cost of expanding our network to additional colocation sites within a market; the cost of completing local and long distance calls originated by our customers; the cost of leasing space in incumbent local exchange carrier central offices for colocating our transmission equipment; and the cost of leasing our nationwide Internet network.

Gross margin for the month ended March 31, 2002 was 53.8% versus a plan of 49.5%. The gross margin for the three months ended March 2002 was 49.4% versus a plan of 48.4%.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses were $33.6 million for the month ended March 31, 2002 versus a plan of $34.3 million. Selling, general and administrative expenses for the three months ended March 31, 2002 were $101.8 million versus a plan of $101.7 million. Selling, general and administrative expenses include salaries and related personnel costs, network administration and administration related facilities costs, sales and marketing costs, customer care and billing costs, bad debt expense and professional fees. The number of employees increased to 4,096 as of March 31, 2002, versus a plan of 4,178. The net favorable variance in spending in March 2002 of approximately $0.7 million was the result of lower salaries and related personnel cost, offset by higher spending on marketing, network administration and bad debt expense.

For the month ended March 31, 2002, depreciation and amortization expense was $24.5 million versus a plan of $16.3 million. For the three months ended March 31, 2002, depreciation and amortization expense was $68.0 million versus a plan of $48.1 million. Such increase was consistent with the deployment of our networks and initiation of services in 36 markets as of March 31, 2002. The variance to plan relates to a higher balance of assets placed into service in late 2001, offset somewhat by lower spending than planned on capital expenditures in March year to date.

For the month ended March 31, 2002, interest expense was $8.1 million versus a plan of $8.0 million. For the three months ended March 31, 2002, interest expense was $24.1 million versus a plan of $24.0 million. Interest expense reflects the accretion of the 11 3/4% notes and related amortization of the original issue discount, the amortization of the original issue discount on the 12 7/8% notes, and the interest charges and amortization of deferred debt issuance costs related to our $500 million senior secured credit facilities. The amount of interest capitalized for the one month and three months ended March 31, 2002 was $1.0 million and $2.8 million, respectively. Interest income for the month ended March 31, 2002 was $0.6 million versus plan of $1.0 million. Interest income for the three months ended March 31, 2002 was $1.7 million versus a plan of $3.1 million.

Our net loss for the month ended March 31, 2002, after amortization of the non-cash management ownership allocation charge and amortization of deferred compensation, was $36.0 million. For the three months ended March 31, 2002, our net loss was $112.6 million. Planned net loss for one month and three months ended March 31, 2002 was $28.9 million and $90.5 million, respectively, with the primary variance being depreciation expense, as noted above.

TD 0927

For the month of March 2002, we had an EBITDA loss of $3.7 million. For the three months ended March 31, 2002, EBITDA loss was $21.8 million. Planned EBITDA loss for the one month and three months ended March 31, 2002, was $5.2 million and $20.2 million, respectively. In calculating EBITDA, we exclude the non-cash charges to operations for the management ownership allocation charge and deferred compensation expense totaling $0.2 million for the month of March 2002 and $0.4 million for the three months of March 2002. The favorable variance in EBITDA loss of $1.5 million versus plan for one month ended March 31, 2002 is principally due to lower network cost and selling, general, and administrative expenses, offset by a shortfall in revenue production.

Liquidity and Capital Resources

As of March 31, 2002, we had approximately $360.1 million of unrestricted cash and short-term investments versus a plan of $307.4 million. During March 2002, $36.7 million in cash and short-term investments were used for all purposes. For the three months ended March 2002, we used $39.2 million in cash for all purposes versus a planned use of $102.9 million. The principal reasons for the variance from the actual cash use versus plan were lower capital expenditures and cash generation from working capital due to strong collections and cash payments from Genuity.

For the one month and the three months ended March 31, 2002, we made capital expenditures of $19.5 million and $39.8 million, respectively. Planned capital expenditures were $22.0 million for March 2002 and $64.3 million for the three months ended March 2002. The variance to plan was the result of a change in timing of certain capital expenditures versus the planned timing, as well as elimination of non-essential projects. Management has set stringent limits on capital spending to allow only those capital projects deemed critical to run the business as well as to conserve capital.

We have purchased dedicated fiber rings in 24 of our markets. As of March 31, 2002, we had dedicated fiber rings in operation in 22 markets including Austin, Boston, Chicago, Dallas, Denver, Detroit, Ft. Worth, Houston, Long Island, Los Angeles, New York City, Northern New Jersey, Philadelphia, Phoenix, Pittsburgh, Portland, St. Louis, San Antonio, San Diego, Seattle, Washington, D.C., and White Plains. The cost of these rings includes both the amounts we pay to the fiber ring provider as well as the cost of the electronic equipment that we purchase and install on the rings to make them operational.

Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Operations
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement.
These financial reports are unaudited and are subject to change.

	One Month ended March 31,			Three Months Ended March 31,		
	2002	2002 Plan	2001	2002	2002 Plan	2001
Revenues	$ 55.6	$ 58.8	$ 39.5	$ 162.1	$ 168.5	$ 105.9
Network costs	25.7	29.7	12.2	82.1	87.0	51.2
Gross Margin	29.9	29.1	27.3	80.0	81.5	54.7
Gross Margin %	53.8%	49.5%	69.1%	49.4%	48.4%	51.7%
Selling, general and administrative expenses	33.6	34.3	28.4	101.8	101.7	84.6
Earnings before interest, taxes, depreciation and amortization	$ (3.7)	$ (5.2)	$ (1.1)	$ (21.8)	$ (20.2)	$ (29.9)
Depreciation and amortization	24.5	16.3	19.0	68.0	48.1	51.3
Noncash deferred compensation	0.2	0.4	0.6	0.4	1.3	6.1
Earnings before interest and taxes	$(28.4)	$ (21.9)	$(20.7)	$ (90.2)	$ (69.6)	$ (87.3)
Interest Income	0.6	1.0	0.9	1.7	3.1	7.0
Interest Expense	8.1	8.0	5.5	24.1	24.0	16.0
Interest, Net	(7.5)	(7.0)	(4.6)	(22.4)	(20.9)	(8.9)
Net income (loss)	$(36.0)	$ (28.9)	$(25.3)	$(112.6)	$ (90.5)	$ (96.2)

TD 0929

Allegiance Telecom, Inc and Subsidiaries
Consolidated Balance Sheet
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change.

	March 31, 2002	March 31, 2002 Plan	March 31, 2001
ASSETS			
CURRENT ASSETS			
Cash and equivalents	$ 302.6	$ 307.4	$ 234.2
Short-term investments	57.4	-	262.8
Short-term investments, restricted	-	-	13.1
Accounts receivable, net	149.2	150.9	111.1
Prepaid expenses and other current assets	14.5	6.0	8.4
Total current assets	$ 523.8	$ 464.3	$ 629.6
Property and equipment, net	1,014.8	1,043.6	846.8
Debt issuance costs	18.1	18.1	22.5
Long-Term investments restricted	1.0	1.0	0.8
Goodwill, net of amortization	110.8	107.5	114.6
Other assets	57.0	34.8	40.3
Total assets	$ 1,725.5	$ 1,669.3	$ 1,654.6
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	$ 61.4	39.0	$ 64.7
Accrued liabilities and other current liabilities	116.8	75.7	85.1
Total current liabilities	$ 178.2	$ 114.7	$ 149.8
Long-term debt	1,034.5	1,024.2	554.7
Other Long-term liabilities	14.3	13.1	28.9
STOCKHOLDERS' EQUITY			
Common stock, par value	1.1	1.1	1.1
Common Stock Warrants	1.9	1.9	1.9
Additional paid-in capital	1,798.3	1,795.0	1,773.0
Accumulated deficit	(1,302.8)	(1,280.7)	(854.7)
Total stockholders' equity	$ 498.5	$ 517.3	$ 921.2
Total liablities & stockholders' equity	$ 1,725.5	$ 1,669.3	$ 1,654.6

TD 0930

Allegiance Telecom, Inc and Subsidiaries
Consolidated Statement of Cash Flows
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement.
These financial reports are unaudited and are subject to change.

	One Month Ended March 31, 2002	One Month Ended March 31, 2002 Plan	One Month Ended March 31, 2001	Three Months Ended March 31, 2002	Three Months Ended March 31, 2002 Plan	Three Months Ended March 31, 2001
Cash Flows from Operating Activities						
Net (loss)	$ (36.0)	$ (28.9)	$ (25.3)	$ (112.6)	$ (90.5)	$ (96.3)
Adjustments to reconcile net (loss) to cash used in operating activities						
Depreciation and amortization	24.5	16.3	19.0	68.0	48.0	51.3
Provision for uncollectible accounts receivable	5.6	1.9	1.6	10.8	5.2	4.5
Accretion of investments			0.3	(0.1)		(1.9)
Accretion of series B and 12 7/8% notes	4.0		3.6	11.6	15.7	10.4
Amortization of deferred debt issuance costs	0.2		0.4	0.9		1.2
Amortization of management ownership allocation charge and deferred compensation	0.2	0.4	0.6	0.5	1.3	6.1
Change in assets and liabilities						
(Increase) decrease in accounts receivable	(0.4)	(4.4)	(3.5)	(18.4)	(2.6)	(19.3)
(Increase) decrease in prepaid and other current asset	2.2	-	(0.6)	10.9	1.0	(2.1)
(Increase) decrease in other assets	(4.4)	-	(0.8)	(4.3)	-	(1.8)
Increase (decrease) in accounts payable	(1.9)	(5.4)	11.7	11.0	(11.4)	(16.2)
Increase (decrease) in accrued liabilities and other	(9.7)	-	(6.3)	25.8	-	28.4
Net Cash Used in Operations	$ (15.6)	$ (20.2)	$ 0.7	$ 4.1	$ (33.2)	$ (35.8)
Cash Flows from Investing Activities						
Purchases of property and equipment	(19.5)	(22.0)	(42.3)	(39.8)	(64.3)	(115.8)
Capitalized Interest	(1.0)		(1.5)	(2.8)		(4.7)
Purchases of subsidiaries, net of cash acquired	-	-	(5.1)	-	-	(8.2)
Purchases of short term investments	(26.3)		(29.2)	(45.9)		(188.6)
Proceeds from redemption of investments	3.6	0.9	10.0	13.8	3.0	189.4
Reclass of Cash Equivalents to short term investments	-			-		
Net Cash Used in Investing Activities	$ (43.3)	$ (21.1)	$ (68.0)	$ (74.8)	$ (61.3)	$ (127.8)
Cash Flows from Financing Activities						
Deferred debt issuance costs	-		-	-		-
Proceeds from credit facility draw			-	-		-
Proceeds from issuance of common stock, net	-		0.3	1.2	1.0	2.8
Payments on Capital Lease Obligations	(0.7)	(1.2)	(0.3)	(2.1)	(3.7)	(1.1)
Other Financing Activities		(5.8)	-	-	(5.8)	-
Net Cash Provided from Financing Activities	$ (0.7)	$ (7.0)	$ (0.0)	$ (0.9)	$ (8.5)	$ 1.7
Net increase (decrease) in cash	$ (59.6)	$ (48.3)	$ (67.3)	$ (71.5)	$ (102.9)	$ (161.9)
Cash, beginning of period	$ 362.2	$ 355.7	$ 301.5	$ 374.1	$ 410.3	$ 396.1
Cash, end of period	$ 302.6	$ 307.4	$ 234.2	$ 302.6	$ 307.4	$ 234.2

TD 0931

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change.

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Warrants	Deferred Compensation	Management Ownership Allocation Charge	Accumulated Deficit	Total
BALANCE, December 31, 2001	115.5	1.2	1,801.4	(0.3)	-	1.9	(8.1)	-	(1,190.2)	608.1
Issue of stock, employee stock purchase plan	.4	-	1.2	-	-	-	-	-	-	1.2
Option exercise	.1	-	-	-	-	-	-	-	-	-
Common Stock issued for business acquisitions	.2	-	1.3	-	-	-	-	-	-	1.3
Amortization of deferred compensation	-	-	(5.1)	-	-	-	5.6		-	.5
Net loss	-	-	-	-	-	-	-	-	(112.6)	(112.6)
BALANCE, March 31, 2002	116.3	1.2	1,798.8	(0.3)	-	1.9	(0.5)	-	(1,302.8)	498.5
Plan, March 31, 2002		1.1	1,795.0		(0.0)	1.9			(1,280.7)	517.3
BALANCE, March 31, 2001		1.1	1,779.1		(0.0)	1.9	(8.1)	-	(854.7)	921.2

TD 0932

Allegiance Telecom, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
(Dollars in millions)
(Unaudited)

Note: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change.

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Number of Shares	Treasury Stock Amount	Warrants	Deferred Compensation	Management Ownership Allocation Charge	Accumulated Deficit	Total
BALANCE, February 28, 2002	116.2	1.2	1,803.9	(0.3)	-	1.9	(5.9)	-	(1,266.8)	534.2
Stock Option Exercise	.1									
Amortization of deferred compensation			(5.1)				5.4			.2
Net loss									(36.0)	(36.0)
BALANCE, March 31, 2002	116.3	1.2	1,798.8	(0.3)	-	1.9	(0.5)	-	(1,302.8)	498.5
Plan, March 31, 2002		1.1	1,795.0		(0.0)	1.9			(1,280.7)	517.3
BALANCE, March 31, 2001		1.1	1,779.1		(0.0)	1.9	(6.1)	-	(854.7)	921.2

TD 0933

RightFAX 5/1/02 12:14 PAGE 1/2 RightFAX

FAX

c- Tracy Crawford

TO: Toroonto Dominion/Houston - Neva Nesbin

Company: Toronto Dominion- Houston Agenc
Fax Number: 17139519921
Phone Number: 7136538241

FROM: Huck, Mark

Fax Number: 214.261.8760
Phone Number: 469.259.2150

NOTES:

CONFIDENTIAL: These financial reports are confidential and are subject to the confidentiality provisions of the Credit Agreement. These financial reports are unaudited and are subject to change

Date and time of transmission: Wednesday, May 01, 2002 12:10:26 PM
Number of pages including this cover sheet: 02

TD 0936

This document was faxed using a RightFAX v7.0 electronic document delivery solution. RightFAX

CONFIDENTIAL
For use only by the Lenders under that certain
Credit and Guaranty Agreement referred to below

ENT'D MAY 01 2002
CLP

COMPLIANCE CERTIFICATE
FINANCIAL OFFICER CERTIFICATE

THE UNDERSIGNED HEREBY CERTIFIES TO ALL AGENTS AND LENDERS AS FOLLOWS:

1 I am the Senior Vice President of Finance and Accounting of Allegiance Telecom, Inc., a Delaware corporation ("*Company*").

2. This certificate is the "Financial Officer Certification" required by Section 5.1(a) of that certain Credit and Guaranty Agreement, dated as of February 15, 2000, by and among Company, Allegiance Telecom Company Worldwide ("*Borrower*"), the Subsidiaries of Company (other than Borrower) party thereto, as Guarantors, Lenders, Goldman Sachs Credit Partners L.P., as Syndication Agent and Sole Lead Arranger, Toronto Dominion (Texas), Inc., as Administrative Agent and BankBoston, N.A. and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents. Capitalized terms used but not otherwise defined in this certificate have the meanings given to such terms in the Credit and Guaranty Agreement.

3. The attached financial statements fairly present, in all material respects, the financial condition of the Company and its Subsidiaries as at the dates indicated and the results of their operations and their cash flows for the periods indicated, subject to changes resulting from audit and normal year-end adjustments.

Allegiance Telecom, Inc.
By: ______________________
Name: G. Clay Myers, Senior Vice President of Finance
and Accounting

TD 0937

① [illegible] on [illegible]
② debt to cap ratios @ '01? what about '02 or '03?

2/19 ALGX
4Q01 - Results

Revs ↑12.3% sqt'ly
4Q 51.3% GMs - good ntwk expense mgmt
'01: 51.2%
SG&A 105.5M (1x $5.5M non-rec chg assoc. w/ duplications of post acquisitions) ↑10% sqt'ly? (*)?
ebitda -27.7 incl. $5.5M non-rec.
113M s/b 114.8M @ 4Q
capex: $45.4M in 4Q vs $88M in 3Q
'01: $430M ('00) 364M ('01)
liquidity: $400M in cash $150M on revolver → available
- in compliance w/ all covenants
- budgets see no covenant risk

'02 covenants

	Revs '01A	'01 Cov.	'02 Cov
1Q	105	85	150
2Q	124	100	180
3Q	135	120	200
4Q	152	140	220
		445	755

400M capex covenant '01
400M " '02
→ ("not a chance in hell")

Sr. sec debt : total cap '01 65 + 350 = 416M vs $2.8B in [illegible]
0.35 → covenant test - every quarter = .15
More than 2x covered
+ HY Bonds $1B : 2.8B = 0.36x
0.6 → covenant test - every quarter

Fiber leases [illegible] @ $100M @ $65M now

project to improve GMs - Fiber rings
11 → 14 → 22 (21 was plan) 2-3 more in '02
2Q 3Q 4Q
Det, Phx, Pitt, San, San D, Bos, LA, Con[illegible]
MFN/LVLT LH connections Bos-NYC-Phil-DC connections

CONFIDENTIAL
CSFB 0000309

Tom Lord #182

accm: trends favorable (as % of rev)
1Q01: 20.1%
2Q 14.9%
3Q 12.6%
4Q 12.2%

FY01: 14.5%

pos mkts:
1Q: 4 mkts ebitda + 2Q 13 3Q 14 4Q 16

1Q: 121 2Q: 114 3Q: 88 4Q: 45
Capex: $364M
'02: $215-240M capex range (IBI acquisition require (compounding routers, etc.)
$250-300 per line for capex
600K lines target for '02 $150-180M = success based cy
remainder OSS upgrade / other maintenance

ARPU 52.60 -> 51.80 -> 48.03 -> 50.08
1Q 2Q ? 49

7.7%	local	87.5M	↑2.4% sqt'ly	
8.7%	data	54.4M	↑29.8%	-> data demand robust in SME sector
5%	LD	9.9M	↑26.9%	
	total	158M	12.3%	

~~local 87.72~~

Network stats: 135K installs
190K gross adds ↑4.4% sqt'ly
31 switches (+1 in Q)
+17 colos 789 total
21 completed but not lit (capex in '01)
net +13 K to sales
+300 K from IBI acquisitions

100-150 K ↓ organic @ ALGX

CONFIDENTIAL
CSFB 0000310

- break out IBI & in future
- concern that investors may lose sight of organic growth...
- A/R - only gain in current assets

4Q01 ALGX Cont.

YE02: 850 colos → target Lt
A/R → DSOs modest improvement
1Q 94.5 2Q 90.8 3Q 84.6 4Q 83.8
25.2 days of 83.8 are receivables from T, VZ, SBC, AIT, BLS
- slow to pay bills due to disputes
DSOs for retail → 58.6 days

ALGX took its own "witch hunt" for acctg. issues
- reserves ↑ during
4Q01 gross A/R 184.4m 141.4m net ~~+~~
42.7m total reserves 23% of gross +11.5m in T reserves
45.5m for ?? for total of 16... - ? ↑

Gross SG&A trends 1Q 77.8 2Q 91.4 3Q 95.7 4Q 105.5
cash 73.3 83.8 83.1 68.7

Smith: complete transition by 3Q end
IBI acq: DOJ nondisclosure ... unit peering agreement
- purpose wants to get Tier 1 backbone
- same ntwk expense → accretive to GMs
'02 rev impact: will prune off wholesale custs
- acct by acct review for others
- 1Q02/2Q02: updates for what installed base for IBI ...

Tony
1) no more contractors for extending OMAREs, etc.
2) Software A's in b/o freight IAD up to UNE lines
3) better LNP → centralized process now.. (same deal for UNEs & IADs)
UNE / IAD factory 60K lines ?
- as many bband custs as ?

CONFIDENTIAL
CSFB 0000311

what is diff about ALGX?

SME

1) addr mkt 789 cltys in 36 mkts up to 20M acces lines available

2) product offering: 1) algx select → free LD btwn offices for us selects local + ld . . .

IAD churn low . . (0.5% / mo)

no accty issues: no off balance sheet financing

– cap leases 500-60M

– no bond rating triggers

– In compliance w/ all bank covenants

– don't sell IRUs, no cap. swaps

– no strategic relationships requiring future commitment

– Anderson → immaterial amt of other work

– no special purpose subsidiaries

– Rogers has never sold a share of ALGX → no debt to co.

'01: brought 9 mkts on line → in line w/ forecast

Q3: decided to stop growing high end hosting biz

'02 forecast: 600K net new lines ± 25K

– Rev @ ~ $800M

Covenants

quarterly guidance: 1Q 165-168M

2Q 185-190,

"high octane topline growth" 3Q 208-213 20.0

4Q 232-237 220

15-25M cum ebitda loss for FY

ebitda b/e late 3Q / early 4Q

capex now 215-240 (vs 220-250 prior)

majority of new installs T1 / IAD

– moving to automatic billing systems → 2 systems left for manual

notes for piece:
- Forecast gradually IBI

Roycee: Marie
469-259-2108
Roycee:
214-853-7105

4Q01 ALGX Conf.
reconciliation of line counts
↓125K lines

in Friedland - guidance doesn't assume an improving economy
- Q4 → trends in rev from the billing statement O/S? > listen here...

to DiCaprio - 60K installs in January → not an anomaly
- only UNE/IAD lines
- ebitda → drag from new mkts will continue into 1Q02 but good improvement in rest of yr.

Arden IBI: ? didn't say whether #'s were in '02 guidance.
SG&A write off: $11M was looked @ similarly as in past
$5.5M → data reconciliations, etc through acquisitions
2Q ramp:
YE02: 60/40 IAD/UNE split

Follow-up call

Guidance is both pre-intermedia and post intermedia... — or won't hurt ebitda
- will be 6/30 b/4 we get more clarity... — 3/4 of rev
- may not break out ICIX contribution to total revs... — loses wholesale
- will abandon wholesale — WCOM #'s were not
- any rev from ICIX in Q4? < $1M — factually accurate
GENU 7-8% / quarter, hosting down a touch... — $(25M) reportedly wrong
40% of POPs & locations of ICIX not on network...

add'l coat
A/P sys... Smith?
Ain line count: 1) order mgmt sys 2) provisioning sys 3) billing system
- had been counting on DS0 equivalent
- now using the billing system to count lines... → Smith
- order mgmt was 125K off of billing system — MAE-D - taken out of order mgmt but not keyed out of
- some rev impact in 4Q → some back to 1st of year...

CONFIDENTIAL
CSFB 0000313

churn: ~ | UNE-L ~2%/month "trending" to 1.5%/mo. . .
T-1 <0.5%/mo.

Allegiance Telecom Inc (ALGX) - Q4 2001 Earnings Conference Call

Allegiance Telecom Inc (ALGX) Q4 2001 Earnings Conference Call	Tuesday, February 19, 2002 5:00 pm

Fair Disclosure Financial Network, Inc. For more information: www.fdfn.com

Disclaimer: This transcript is derived from audio sources over which Fair Disclosure Financial Network, Inc. has no control. Words and/or phrases that cannot be transcribed accurately are so indicated in the transcript. The audio conference call should be considered the ultimate source of this content.

THE OPERATOR:
Good day and welcome to the Allegiance Telecom fourth quarter release conference call. As a reminder today's conference is being recorded. (Indiscernible) and introductions I will turn the conference over to Mr. Thomas Lord, Allegiance Telecom's Chief Financial Officer and Executive Vice President of Corporate Development.

MR. THOMAS LORD:
Before we begin I want everybody to know we've just contacted the various news services and our e-mail sources and I apologize. I think there is a slew of numbers that went out today but we have been told that your e-mail boxes should be receiving this if you not already received them, the Yahoo wires, the business wires, the PR wires, all of the stuff should be there eminently within seconds or minutes, and we do humbly apologize for the snafus in terms of the BackOffice process as it relates to getting out press releases. Before I begin I got to obviously go through and start with the traditional warning that on this call we will be making many forward-looking observations and statements. Royce is going to go into detail in terms of our guidance for 2002 and the support around that. In particular, we will be making forward-looking statements that are covered under the Safe Harbor Private Securities Reform Act and are subject to many uncertainties and risks. We have continued to disclose in our Qs and Ks and our earnings statements what these risks are and we urge everyone to continue to monitor those as well as these calls. We try our best to provide you all with as much of an update on the Company as possible. I'm only going to make about one minute's worth of editorial comments because I know no one wants to hear that. They want to get right into the facts. I think these editorial comments are very important. We've read the same papers that you all have read, we've seen the same TV shows and news articles that you all have seen, and on behalf of the Allegiance management team and Board of Directors that I will remind you are the largest owners of the Company, we understand our roles as stewards of the business, as caretakers of your investment and we gravely respect our role of accountability to all investors and to maintain as much

Exhibit 183

disclosure and insight into the business as possible. I've really have gone out of my way personally and shared the belief of the management team that we want to strive to try to have the highest standards possible for you all to have an insight into the business, no matter your opionion in terms of the business , be it positive or negative. I know that the sentiment out there's the worst I've ever seen in 25 years. I was visited by a leading investment bank last week, that kind of sums it up in terms of why there has been such pain and inability to separate good companies from bad. This bank provided me with a piece of paper that showed the bankruptcies in the telecom industry that went back from July 2000 through year-to-date and was rather staggering. The number of names were household names of a year or two ago and it is our objective and we hope after this conference call we will have provided you with some insight that we at Allegiance do not intend to try to get onto that list, get close to that list or have anything to do that list. We think we have a well managed, well funded, adequately capitalized business that will continue to grow in spite of the difficult economic environments, in spite of problems and the environment we are currently operating in, relative to our peers, there's no such thing as being in first place, but I think that Royce will tell you that we believe we've at least tied up there for the top. So, enough of my personal statements. Let me get right into the facts and figures and I'm going to do this as Walter Condit said, "just the facts, just the news, all the black and white. Fior the quarter, revenues came in at $151.8 million, that's up 12.3 percent sequentially, from 135 million. For the year, results were 518 million, up 81 percent from 285 million a year ago. A little bit of upside surprise, at least in terms of what we've said on the last call, gross margins came in at 51.3 percent, compared to 51.4 percent. I had expected those gross margins to have ticked down a little bit more but we had good network expense management throughout the quarter. For the year, gross margins improved 400 basis points, rising from 47.2 percent last year to 51.2 percent this year. SG&A came in at $105.5 million with a one-time non-recurring charge of $5.5 million, associated with duplications of some of our past acquisitions and endeavor to try to go clean the house as much as we possibly could. This increase from 95.9 million to 101.5 million was a 10 percent increase. For the year, SG&A increased by 48 percent, from 252.4 million last year to 373.3 million this year. The EBITDA loss for the quarter came in at 27.7 million. That would include, again, the 5.5 million non-recurring charge, so we believe we are in our target of trying to get the 20 to 22 million area, obviously on the highside. This compares with a $26.4 million loss, so on our organic basis, EBITDA dropped from 26 down to the 22 level. For 2001, the EBITDA lost dropped from 117.9 down to 108.6. We believe you will see continued improvements in our declining EBITDA losses throughout 2002 and we're reaffirming our guidance to go EBITDA positive in the second half of the year. The loss per share for the quarter came in at $1.09, this would compare with 94 cents sequentially int the third quarter and a loss for the year came in at $3.77 comparing with $2.58 last year. Our shares outstanding at the end of the year,

were 113 million with shares outstanding for the quarter came in at 114.8. Capital expenditures, and I'll touch on this when I talk about cash and liquidity in the big picture. CapEx dropped dramatically down to the 45.4 million for the fourth quarter, down from 88 million in the previous third-quarter. For 2001, capital expenditures dropped from 430 million in 2000 down to 364 million for this year. Liquidity, the number one topic on people's minds today. We remain in a very fortunate an enviable position. We closed the year with $400 million and 150 million of availability of a (indiscernible) that we've not yet tapped in terms of that excess liquidity that exists. So Today we have cash liquidity of $550 million. We are in compliance with all aspects of our covenants as it relates to 2001 and in terms of the budgets that we have passed on to our banks for 2002. We do not see any covenant risk. I promised all of you that on this we would give you detailed covenants for 2002 and I intend to do that now, as well as to provide some perspective with how we've fared against those covenants in 2001. The toughest covenant for us to go up against has been the revenue text. Let me give you some detailed numbers looking backwards before we look forward. In 2001 as you all know, our revenues went like this on a subsequent basis: 105 million in the first quarter, 124 million in the second quarter, 135 million in the third-quarter and 152 million in the fourth quarter are results for the year of 516 million. Our covenant test was 85 million in Q1, 100 in Q2, 120 in Q3 and 140 in Q4 with a covenant test of 445 million. So, we more than adequately covered that revenue test. The capital expenditures covenant test for 2000 was 400 million and we came in very comfortably at 364. For 2002, our clearly covenants on revenues in the first quarter are 155 million, increasing to 180 in the second quarter, rising to 200 in the third-quarter, and topping out at 220 in the fourth quarter, for total revenue covenants test of 755 million. Our capital expenditures basket is 400 million. There's not not a chance in Hell that we will spend $400 million. Two other items that we get asked about are our senior secured debt to total capitalization. At the end of this year, our $350 million draw down on the debt facility when added to approximately $65 million in (indiscernible) releases left us with a total senior secured debt number of $416 million, against total capitalization of approximately 2.8 billion. That ratio comes out at .15. Our covenants test is .35. Unless Allegiance was to go issue an immense amount, which we have no plans to, of additional debt, we are more than two times covered with respect to our senior secured debt to capitalization covenant test. The other debt capitalization test is total debt. That would include our high yield bonds. If you add the high yield bonds to our Senior Secured Indebtedness you come up with about a total of around $1 billion of indebtedness against the capitalization of 2.8 billion. That ratio, when divided, produces a statistic of .36. Our covenants test is .6. As you can see, for good reasons, if I was a bank I would do the same thing. The banks have made sure that they have put themselves in a position where Allegiance will not over leverage itself. We have every intent to stay inside of those covenants with respect to the utilization of leverage. With the high yield market being closed, I don't think I got a chance in

Hell of taking the debt of this company up for this coming year. Back to the operational side. We've had a project underway this year, everybody knows about that's very important in terms of realizing improved gross margins. We exceeded our plan oin terms of the number of fiber rings that we had lit and operational. At the end of the second quarter we had 11 rings lit. It jumped to 14 in the third-quarter. We told people we thought we would ass 7 in Q4 and we ended up adding eight. Those new markets are Detroit, Phoenix, Pittsburgh, San Antonio, San Diego, Boston, Los Angeles and Long Island. We intend to add two to perhaphs three fiber rings for 2002. The other project that was completed in the fourth quarter still had some network grooming to go, but it has been lit and has been activated as our long haul fiber with MetraMedia (phonetic) fiber and level three providing us with long haul connections and call it one great big giant fiber ring in what Royce refers to as the bosh-wash corridor, well we now have connected (indiscernible) with Boston, New York, Philadelphia and DC that are in turn are linked into our fiber rings. Access, I know an issue we always get asked about but frankly, this question has kind of seen begun to go by the wayside. I don't get many questions about it but we will continue to report the statistic. The access trends continue to be favorable in terms of access declining as a percent of revenues, but I said in the past, I believe they have traughed off. In the first quarter, again to refresh everyone's statistical data base, access as a percent of gross revenues was 20.1 percent. It dropped to 14.9 percent in the second quarter. In the third-quarter it came in 12.6 percent and dropped to 12.2 percent for the fourth quarter. For the year, total access as a percent of revenues came in at 14.5 percent. In terms of the belief of our business plan, that it is scalable, demonstrable and has a path to profitability, in the first quarter we had 11 markets that were generating EBITDA positive results. In the second quoted that increased by two cities to 13. In the third-quarter we added one city up to 14. We're pleased to report that in this quarter and at the end of the year we added two cities to the roster of being cash flow positive, Denver and the New Jersey market, and now have a total of 16 markets that are generating positive EBITDA contributions to

the company's consolidated cash flows. Capital expenditures:
like I said, we're probably not going to be helping the equipment companies out as much as we have in the past years in our growth phase, but CapEx has dropped rather dramatically and will continue to decline. Capital expenditures for the year came in at 364 million, and the CapEx trend for the year went 121 million in the first quarter, 114 million in the second quarter, 88 million in the third-quarter and a dramatic drop off to 45 million in the fourth quarter. We are also lowering our CapEx guidance to by about ten million dollars this year, now down to a range of 215 to $240 million. A lot of that had to do with the fact that we had as a result of the IBI acquisition, our intent to purchase Cisco routers and things to try to grow our (indiscernible) backbone. By virtue of buying that asset, we did not have to spend moneyies that we were planning on spending in

terms of IP capital acquisitions. Coming back to the CapEx number for the year ago, though, to give people a sense that it is almost entirely growth driven, of 215 to $240 million, at the margin today, it cost us approximately $250-300 to add a line. Given that our target for this year is around 600,000 lines. you can see that as a result of growth, growth that we believe is a good thing, our total success based capital will come in at a range of between 152 to 180 million. The remaining $60 million in capital expenditures will be comprised of continued ongoing OSS upgrades and modifications as well as traditional maintenance capital expenditures to support our gold-plated network. Our RPU (phonetic) for the quarter improved, and Royce will touch on this when he goes into his component of the conference call, but RPU (phonetic) to remind everyone throughout the year, in the first quarter was $52.60, declined at $51.86 when the access rate declines took effect, with the impact in the third quarter as a result of the events of 9/11, and still suffering somewhat in the fourth quarter, we're pleased to report the (indiscernible) from $48.03 to $50.08. In terms of what drove the results for the quarter, let me give the breakdown now in terms of local, data and long distance. For the fourth quarter, our local voice revenues came in and 87.5 million; up 2.4 percent from 85.4 million and up 32.9 percent from 65.8 million a year ago. Out data business remains growing quite robustly as a result of the success we're having in the integrated access Services offering. Our data revenues increased 29.8 percent, rising from 41.9 million to 54.4 million for the fourth quarter. This was a 116 percent improvement over the results of 25.1 million dollars a year ago. I think if anybody in this call was to go back and try to refresh their memory a year ago, I think clearly, in spite of what we've read about with the data environment being somewhat weak, the damand we see from the SME sector really is quite robust is the leading driver why Tony has had success in the integrated access services offering. Our long distance business increased by 26.9 percent, rising from 7.8 million to 9.9 million, this was an increase of 141 percent from 4.1 million a year ago. And in summary, again, the quarter was 12.3 percent sequentially, from 135 million to 158 million for the fourth quarter and up 59.8 percent year-over-year, rising from 95 million a year ago. The breakdowns on the percentages, for the fourth quarter, local business came in at 57.7 percent, data came in at 35.8 percent and long distance came in at 6.5 percent. If you compare the trends to a year ago you've seen that data has been the drive in the Company's business. Our local voice a year ago was 69.2 percent, data was 26.4 percent and long distance was 4.4 percent. Now, some information in terms of statistics on the network and how the performed. We estimated installs in the fourth quarter of approximately flat with a third quarter of around 135,000. Tony's order book remained strong, coming in at 190,000 lines for the quarter, up 4.4 percent. We added two markets and have now completed the building stage of the network and are in the harvesting mode of trying to generate cash flows off of these 36 markets. We added one switch and now have 31 switches in operation. We added 17 lit (indiscernible) for total of 789. There are 21 colocations that were completed

during the year that were part of the CapEx and the cash burn but are not reported in my lit statistics since we have not deployed facilities to them. This is one of the reasons why we have a strong belief that the CapEx is going to continue to trend down. We added net 13 people to sales. Tony added two or three new sales teams during the quarter but we did make some changes to the sales organization and add some attrition and reductions in sales so that the overall sales organization has basically been held flat. The total Company headcount increased by 192 bodies with approximately 300 bodies coming on board at year-end from the IBI acquisition. That would tell you that on an organic basis outside of IBI we actually had a headcount decline at Allegiance by probably about 100 to 150 bodies. We expect that at the end of 2002, we will end up with approximately 850 colocations which would represent what we would believe would be our target market for addressing the large SME enterprise that we're targeting today. Accounts receivable and day sales outstanding. Again, we had improvement here in the quarter, albeit modest. Again, to review, in the first this year, our day sales outstanding stood at 94.5 days. It improved to 90.8 days in the second quarter. It dropped to 84.6 days in the third-quarter, and we're pleased to report that at the end of the fourth quarter our sales outstanding were 83.8 days. To put this in perspective, however, 25.2 days of the 83.8 days are comprised of receivables that take time to get paid from AT&T, Verizon, FPC, Ameritech and BellSouth. These leading corporations of high credit standing do pay their bills with us but it has always been a lagging type of a payment plan for them, I guess, and due to the disputes that go back and forth, the reason why we have 25.2 days, perhaphs you all can (indiscernible) them as to why they take so long to pay humble allegiance what they rightfully owe us. That would tell you that our day sales outstanding for our retail customer base which is what the organization is all about is 58.6 days, a rather respectable number. Now, in terms of what I said earlier about trying to find everything we could possibly find to exit the year and go into 2002 with robust outlook, we, Allegiance, not an audit committee not our auditing firm, not anyone else, we undertook our own witch hunt on our own books to try to come up with as much things as we could possibly find that could either be obselete, duplicated, whatever in an endeavor to try to create the best reserves and the fairest conservative representation of the Company's P&L and balance sheet going into 2002. We continued that trend in terms of taking the appropriate actions that are necessary, though we not experienced any changes in terms of payment patterns or seeing any part of the economy impact (indiscernible) over our client base (indiscernible) material level. Having said that, we did take higher than normal expenses in the quarter to continue to beef up our reserves. Our gross accounts receivable outstanding for the fourth quarter at the end of the year so you all will not have to wait for the 10K, was 184.1 million. Our net accounts receivable number is 141.4 million. We have total reserves of revenue reserves and bad debt reserves of $42.7 million, or 23 percent of my gross ER. In the quarter we added $11.5 million to our bad debt

reserves and made the addition of 5.5 million and onetime non-recurring charge or added a total of 16.6 million dollars to the reserve basis. I think one of the more conservative positions that is out there. I do have to come back, which I think is very important because cash is king, and show you all what the cash SG&A burn is inside the Company. This is what counts going forward and is the reason why we've had a dramatic improvement in terms of cash utilization. Our gross sgns trends for the year went like this, this would include the bad debt reserves and all other noncash items: in the first quarter gross SG&A was 77.8 million. It increased to 91.4 million in the second quarter. It increased to modestly to 95.9 million in the third quarter and rose to 105.5 million in the fourth quarter. The cash component to the SG&A was 73.3 million in the first quarter, 83.8 million in the second quarter, 83.1 million in the third-quarter, and 88.9 million in the fourth quarter. You can clearly see that our SG&A increases have dropped dramatically in terms of the rate of increased relative to previous periods and are now trending at almost a flatline environment, in fact of the fact that revenues continue to show significant sequential increases in the double digits and dramatic increases in terms of year-over-year trends. The (indiscernible) system had great improvement in the third-quarter and it's detailed in the press release. We mnow have all of the Broadband division, the city of Pittsburgh and new customers in Philadelphia happened turned life and we will complete the transition to move to an in-house billing system by the end of the third-quarter. The final thing I'm going to talk about before turning over to Tony, who will give you some insight in terms of what is going at AID, is the acquisition we made of the intermediate business assets from WorldCom. We are under a (indiscernible) nondisclosure, so I cannot get into the purchase price. There has been a lot of speculation as to what we paid for the asset, I think some of that speculation is fairly accurate but again, we cannot get into the details behind that. The principal drivers behind acquisition, however, have been very sanguine and explicit with people on this, as a function of the fact that we wanted to get a tier one backbone. Everybody knows we'ver been trying to do this for quite some time. Fortunately for us, we missed paying three or four hundred million for a tier one backbone a couple of years ago. At the heyday of the market there were many companies that were acquiring tier one backbones for the billion of dollars. So we think in this case being the turtle and the last one to cross the finish line was a good place to be in terms of our ability to have have now a pier agreement with (indiscernible) net, a world-class tier one backbone that we think will improve the customer experience, and most importantly, from my perspective, we'll save in network expense and we'll have an additive feature or an (indiscernible) feature with respect to gross margins going forward. The other question I've been asked is, what will this do to revenues in 2002? The answer that I've been giving people will be the same answer for at least the next one or two quarters, until we get our arms around the customer base, it will be a number that is not 0. It's obvious that it's going to add revenue, folks. We're going to prune off the whole sale business quite

quickly, however, Chris Maronowski (phonetic), who has headed up this operation, is working closely in an integration basis with the people that we're proud welcome at Allegiance and we're going to be reviewing on an account by account basis, which of those customers we should keep and which of those customers should turn away due to their being off net. Therefore, we commit to you during the first quarter of 2002 and the second quarter of 2002 to provide you with updates as to we think will be the installed established base from IBI that we will continue to own and keep moving forward. With that, I'm going to turn it over to Tony, who is going to walk you through and give you an update on what's happening in his world.

MR. ANTHONY PARELLA:
Welcome. I want to give you some ideas of what's changed in terms of the Broadband factory. We made and implemented many significant changes to the factory that,-I will share with you some pretty staggering results for January. First of all, we went from most of last year using outside contractors to install the vina boxes that we use that really are the brains behind the IAD platform. We now over the fourth quarter got all of our field operations people trained and we now today are putting in all of own vina boxes ourselves and pretty much done away with the use of contractors for extending the demarker and installing the boxes, which gives us much tighter control on the customer experience and installing the services as well as allowes us to keep score on a closer basis of the many we can process per day. No. 2, we made a number of significant software changes in the BackOffice that has allowed us to scale the IAD and total communication platform to the same level that we have the (indiscernible) platform and the third significant change that we did, we've consolidated a portion of the cut over process where local number portability is required. That means where our customer had existing phone numbers that they want to use on their integrated service. In the path that was decentralized by market. Over the fourth quarter we've consolidated that to Dallas and that one function, now the people who did it for (indiscernible) also do it for IAD, which is really allowing us some expanded efficiencies. To give you some color what it means to us as a Company, let me put to you this way: in the month of January, just the uni factory and the I-A D factory installed a record 60,000 lines. And here's the mix, for the first time, I installed as many I-A D customers or TC customers or dedicated Internet customers all under the heading of Broadband which you can see the significant of our data growth, and 50 percent of of the lines being unbundled loops. Fourth quarter came in with what I believe was a very strong quarter for sales and we've set up very well as you can see by the installs in January. But one of the things I don't think we've done a good enough job goods as the Company is explaining to our investors from a sales and marketing standpoint what makes Allegiance different. Why are we able to continue to sell and install number of lines needed to make our numbers when so many others have struggled? I'm going to try to drive home a few key points to what makes

Allegiance different from other carriers, whether it's an (indiscernible), an LV Carrier, or any of the emerging telecom companies in general. No other company is really set up to address the small or medium-sized businesses like Allegiance. First point clearly is our address to the market. With 789 (indiscernible) billed across 36 markets, we actually have a larger footprint than any of the R Box (phonetic) or ILEX (phonetic) in the country with up to 20 million access lines up for grabs for small and medium-sized business. You know in January, because of the scaling of the factory, we for the first time launched a product offering that really plays to the strength of allegiance. No. 1, the first product offering that we went to market with is Allegiance Select. Let me explain what Allegiance Select does. Allegiance Select is a product that

targets multiple location companies. Here's how it works: any company who selects Allegiance for both their local and long distance can call between these offices for free. For example, if ABC Company has a location in New York, a location in Portland and location in Los Angeles, oftentimes these branch offices or relocations need to communicate with each other. By using Allegiance Select they can call each other for free. No other carrier is set up to do this on a national basis. We're the only true national local provider. The cost for transport between our switches for long distance to Allegiance is roughly about half a cent a minunt because essentially we own the local service lines on each of the call. Meaning the originating and terminating end of the call is all hosted and held by Allegiance. We have a huge cost advantage over the regional players who typically would only be servicing one location at a regional basis. The LD carriers really can't do this on a national basis because they depend on a local service provider to get on and of their network. The second significant product offered that we did, we decided to lower the entry point for I-A D, which we call total communications from 8 lines of voice and 256 K of data down to six lines of voice. And the reason we're ready to do that is simply the factory is scaled up to the point where we can handle demand. I would have done it much sooner but we couldn't keep up with sales initiative to install everything that we could sell. Well, we finally feel that we have scaled the ramp the factory tp the point. What this does for us as a company is it enables us to address another segment of the market wherein the past I would sell them strictly UNIS, I wouldn't be able to give them a significant data offering, and now suddenly each time we make a sale of a six line voice I'm suddenly picking up a 256 K a day data to boot. And some things that you need to think about, the differences between the I-A D customer base and the UNI customer base. No. 1, all I-A D total communication customers are under long-term contracts. It can be a one year, two-year contract and they all have teeth with a revenue commitment. No. 2, (indiscernible) on a IAD TC platform has historically been lass than .5 percent per month simply for a couple of reasons. No. 1, Bell doesn't go to market this way. No. 2, when we launched the company we realized that we had to the market and make it simple as a me to strategy of Bell. Today with Allegiance, I-A

D and Allegiance Select and total communicate with a six line entry point, Bell really has no offering That is a threat to this product. We have a direct sales first addressing the marketing, Bell does not. Bell does not sell IAD or TC. Bell does not bundle an LD, hosting e-mail, data, local voice all one same line, all on the same bill. And finally, Bell does not serve customers on a national basis. That's the reason they are called regional Bell operating companies. Bottom line: Dell does not have an answer to TC, I-A D or Allegiance select and that's why we have been so successful with it. And No. 2, Allegiance as a stand-alone company is finally playing to its strength with its national footprint. Royce, take it away.

MR. ROYCE HOLLAND:
floodhas discussed our results for the fourth quarter and for the full year 2001 and Tony has talked about the huge progress that we've made in scaling the fastest-growing segment of our business, integrated access service. And I think this is critical, the scaling of that business to us having a very very good year in 2002. I'm going to provide some additional color to 2001 and provide our guidance for 2002 as well as provide some updates on our BackOffice system upgrades and the 2002 regulatory agenda nationwide. But first, I'm going to put to bed some of the wild, crazy and irrational rumors and witch hunts that have been raging like an Idaho forest fire in the middle of a fifty-year drought. Now, whereas most of these have not been specific to Allegiance or tied to us, still the overall climate out there has had a bad effect on everyone, and the genesis of these rumors is not just overal economic climate which we all know has been difficult for most industries since the tragic events of September 11th, but it has been exacerbated by the Enron debacle as well as recent bankruptcy filings in the Telecom industry by global Crossing and the clouds, plus many of the rumors swirling around WorldCom, Williams, Crest and others. While I cannot really comment on the validity of these rumors as it affects some of our peers out there in the marketplace, I can demonstrably comment on their effect or their lack of effect on Allegiance Telecom. First, with regard to what I call the accounting and financial flavor of of the rumors. Unlike Enron, Allegiance has no off-balance sheet financing. Our debt structure consists of two high yield bond offerings, a bank facility and capital leases in to 50 to $60 million range. I know it's boring, but that's it. Two, unlike Enron, we have no bond rating triggers. Three, unlike the rumors about many other telecom companies, we are in compliance with all of our bank covenants and we plan to stay that way and I will discuss this further when I present guidance for 2002. And unlike Global Crossing,Quest and other, we don't sell IRUs and we have not done any capacity swaps. A round-trip to me is taken on American Airlines, not in the accounting books. Unlike some who are facing investing write-downs, we have no minority interest in other entities other than a very nominal investment in Jump.Net which was an ISP in Austin Texas that we acquired in 2000 that has a couple of minor investments in some other service providers in exchange for services that they provide. We also have no strategic relationships requiring present or future

capital commitments. Like some other Telecom companies, we do use Arthur Andersen as our auditor and they do our audit but they do an immaterial work for us related primarily to tax matters and they do not do internal audit or consulting work for Allegiance. The Andersen audit team has assured me, the team assigned to our account, has assured me that they have no connections to the work that Andersen does for Enron or any of the other problem children out there. With regard to the Allegiance staff, we have one staff account that has worked for Andersen in the past. Our Chief Financial Officer, our Senior Vice President of Finance and our Comptroller our top three financial officers, have never worked for Andersen. Many of these things I guess you'd said they are pretty clever tricks to fool investors and some folks have done that well. I think Tom and Clay and I just are not that clever, so the rumor blunders -- I think you're going to have to look for a more exciting target when it comes to getting into the accounting and finance books. The next area is insider relationships with the Company. I'm pleased to say that unlike Enron, we have no special purpose subsidiaries and no business entities with ownership by Allegiance executives or any other employee for that matter. Now many Allegiance executives and employees are investors in Allegiance but it's all solely at the parent company level through common stock ownership, aligning our interests with those of our shareholders. In fact, Allegiance has one of the largest percentages of the executive and employee ownerships in the Telecom industry and I think that's a good thing. And finally, unlike some of the other players that we are aware of out there, the Chairman and CEO of Allegiance, yours truly, has not reaped hundreds of millions of dollars from selling company stock and he has not borrowed hundreds of millions of dollars from the Company. And in fact he has never sold a share of Allegiance stock and I that definitely puts both his sanity and his greed at question, I recognize, but on the flipside, he has no debt. Doesn't owe money to Allegiance or anyone else. My fanaticism about a strong balance sheet extends to my personal finances and it does not take a rocket scientist to figure out that I am highly motivated to make Allegiance Telecom a rip-roaring financial success, myself and all of the other people sitting around this table who are also owners. Now let me get to the year 2001 performance. Now that I'm belaboring the obvious, the 2001 in many ways presented the toughest business environment since the 1973-74 period, which was dominated by Watergate, soaring energy prices and high unemployment and inflation. In 2001 the economy went into a recession which was exacerbated by the tragic event of September 11th. Things we were even worse in the Telecom sector, wherein the shakeout of new inputs became a flood and even the largest, most established players were plagued by low, single digit topline growth rates and very low earnings growth. Despite the capital markets equivalent to nuclear winter, I feel that we turned in a very solid performance, as we completed our 36 market buildout and still maintained high octane topline growth and began to move down the path to profitability. Now, let's take a look at our 2001 report card. Comparing our 2001 performance to the target that I articulated in our

conference call last February, first, in terms of net worth deployment, we stated that we would bring our remaining nine markets online in 2001, and indeed we did that. We also predicted that we would install sonic fiber rings to replace (indiscernible) capacity and that would be in 19 markets by the end of 2001. We actually exceeded that, we were at 22 by the end of 2001. We forecasted net installs of over 500,000 lines for 2001 and made that number our actual performance was in the range of 525 to 535,000 net installs. Our target revenues in 2001, we predicted 550 million, which represented a 90 percent growth rate over the 285 million in 2000. Our actual performance on the top line was a little short at 517 million, although that still represents an annual growth rate of over 80 percent. As we previously discussed, the reasons for the small shortfall are twofold: the main reason is our decision at midyear, which we talked about in Q3, to discontinue growing our high-end Web hosting business due to industrywide overcapacity and poorer margins in the (indiscernible) location and large dedicated hosting areas. We continued to grow our shared hosting primarily through rapidly growing our integrated access products. The aftermath of September 11th and its impact on sales and installs in September and October also accounted for a smaller amount of this revenue shortfall. In terms of EBITDA, however, we forecasted improving on our $118 million loss in 2000 and improving that to the 100 million to 105 million dollar range in 2001. Well, despite our small shortfall in topline growth, for the reasons we discussed, we almost managed to hit our EBITDA forecast coming end of the loss of 107 million for the year, excluding non-recurring acquisition accounting adjustments that we talked about before. This is a clear indication of better than forecasted margins at our retail small and mid-sized enterprise business. Even more significant was the improvement in the EBITDA loss margin from 31.5 percent in Q4 of 2000 to 14.6 percent in Q4 of 2001. CapEx for 2001 was forecasted at 350 million. Actual CapEx was slightly higher at 365 as we are forecasted with the year, due to the additional sonic rings being lit in three additional markets and the upgrade of our Internet backbone to OC 48 (indiscernible) of wavelengths connecting our largest markets. That was truly a target of opportunity on pricing to move ahead. In summary, we are pleased but not satisfied with our 2001 performance. We were essentially on plan for all of our major parameters except revenue growth which was slightly shorter plan due primarily to what I feel was a very prudent business decision not to pursue a significantly diminished business opportunity in high-end Web hosting. Even at that, I (indiscernible) a growth rate of over 80 percent in this type of market environment is not too shabby. Four, moving on to our forecast for 2002, which we expect to be marked by continued (indiscernible) topline growth and the achievement of a significant milestone for this or any other enterprise and that's hitting EBITDA positive in the second half of the year. In terms of net installs, we're forecasting about 600,000 net new lines to be installed in 2002. I'd say that's plus or minus 25,000. As we have previously stated we expect revenue to grow to about 800 million, an annual growth rate of over 15 percent, still very robust growth. We

have not provided quarterly guidance up until now, but now I am going to do so. Also, as Tom pointed out, there is a lot of heightened interest out there in compliance with debt covenants and I will repeat those as I talk about our quarterly revenue forecast. In the first quarter we're forecasting revenue to be in the 165 to $168 million range vs. the covenant of 155. In Q2, the forecast is 185 to 190 million with a covenant of 180. In Q3, the forecast moves up to 208 to 213 million with a covenant of 200 million and Q4 has a forecast of 232 to 237 million with a covenant of 220 million. We feel that we will be in comfortable shape just like we were in 2001 on making those covenants. Our forecast results in continued higher octane topline growth of about 10 percent quarter over quarter in our annual growth rate in excess of 50 percent. That compares to forecasted annual growth rates in the low single digit range for our major competitors which are the regional Bells and the large interexchange carriers. We also are comfortable in our ability to stay in compliance with our debt covenants, as I pointed out before. We have previously provided guidance that at these growth rates we will be EBITDA positive in the second half of 2002 and we are reaffirming this forecast today. We also forecasting a cumulative ebt in the range of 15 to $25 million for the year versus 107 for 2001, with the first half of the year providing the losses and the second half of the year providing the gains. We expect the cost that EBITDA breakeven threshold about the start of the football season, sometime late in the third quarter or early fourth-quarter. We previously forecasted CapEx for 2002 to be in the 225 to $250 million range, with the completion of our budget, we are today lowering this forecast to a range of 215 million to 240 million, resulting in slightly improved capital efficiency. The bank covenant for this is a maximum CapEx as Tom pointed out of 400 million and we're certainly confident that we will be in compliance with that. As we've discussed on many occasions, the two major foundations of our success are our financial strength and our world-class BackOffice systems and processes. Tom has discussed the former and I'll updatd the latter. Our BackOffice support systems as they're commonly known, have been a constant work in progress since they won as we continue to replace manual processes with automation, continue to promote electronic bonding with the ILEX and develop system interfaces to monitor our work queus, improve processes disability and database integrity and consistency. In Q4 and continuing into Q1 of this year, we've achieved milestones in some of these areas. First, we implemented the saddle billing system, the single view system referred to in the press release for one of our new cities, Pittsburg and for new customers in Philadelphia. In Q4, and we did this in Q4 and the results are excellent. We expect to be implementing saddle for new customers on a market by market rollout from now until the end of the third quarter. I know many of you are rightfully identifying any billing migration as a risk area but bear in mind that for now we're doing this for new customers in existing customers leaving existing customers on ability and the results so far I'm pleased to report that this risk is being very well-managed by our IT and our billing teams. In the second quarter of 2001 we reported to you that we had

rolled out an automated billing interface. We call a BIF, for our unbundled loop customers between our provisioning system and our legacy billing system, the ability (indiscernible). The elimination of the manual keying of billing information into ability had two huge benefits: one, it eliminated the lag time which sometimes had been over two months in getting out a new customers first bill due to all the manual processes. And even more importantly, it virtually eliminated data entry errors in the billing on a going forward basis. In the fourth-quarter, we've extended this same type of BIF to the saddle single view platform as we brought it up for the first two markets for unbundled loop customers, Philadelphia and Pittsburgh. These are major accomplishments but the job is not finished. Two more systems still require manual keying of the data into the billing systems. The new customer orders for integrated access and other TI based products and (indiscernible) orders for all prospects and customers. Until recently, development of an electronic interface for integrated access was not as critical, but as Tom pointed out, our sales for T1 based products equalled unbundled loops in Q4 and our forecast for 2002, at Tony indicated, are that a the majority of our new installs will be integrated access or T-1 developed voice and data products. The (indiscernible) process has always been a challenge, some call it can of worms, for most telecom carriers and we are no exception in that regard. Most of our MacB be problems have really been a result of too many manual processes and certainly a (indiscernible) between provisioning and billing would be helpful in that area. I'm pleased to say that the fix is almost ready. As I speak we're testing electronic billing interfaces between provision in both the ability and saddle platforms for T-1 delivered products and for disconnects. The (indiscernible) and changes interface is still in development. We expect most of these BIF's to be of service both for the new orders for T-1 and for disconnects and the manual keying of new installations and disconnects in the billing will cease at the end of February. Coincidentally, with the development of these systems in the fourth-quarter I commissioned a long overdue in my opinion database reconciliation project to reconcile our order management provisioning and billing databases for the inconsistencies that had developed over the years due to manual data entries into the system and also due to minor differences in the way we count lines in our various systems. For instance, in order management system we use more of a DSO equavalent bases and in our billing systems we use something probably a bit closer but certainly not quite the same as the ILEX. I think we do a pretty job of counting voice but we don't count data equivalent lines particularly one of those that are understated. As part of the reconciliation project we also appempted to reconcile the provisioning and billing databases for the small portion of our business that includes resale services for offset customers. Many of these have been around for awhile. This is a more difficult task since we are dependent on the ILEX (phonetic) for delivery of product and billing information for resale and that really clouds our visibility with regard to lying count, though not really to revenue. As a result of the reconciliation we are adjusting the line count downward in order management

system, which is the basis for tracking lines, by about 125,000 lines to be consistent with the line count in our more conservative billing systems, which really are the ones that we calculate our RPU (phonetic) based on (indiscernible) revenue. This adjustment is broken down into 95,000 facilities based lines and 30,000 resale lines. Going forward, we will use a standardized line count methodology between the systems that is much more similar to the billing system. After final adjustments and lock down of the various systems the percentage of facilities based lines increases to 93 percent, due to a lot of the resale lines that we took out. Since the inconsistencies, resale lines or should say, since the inconsistencies between the various databases had a nonmaterial and we certainly define that as $5 million or less impact on revenue, you would actually RTUs (phonetic) increase to over $50 per line as Tom pointed out, based on using the billing system accounting methodologies. Another project that we are really gaining traction on and a lot of work was accomplished in Q4 is our electronic bonding of trouble ticket systems with FBC communications being our first partner in this area. This is a tremendously successful project. It's finishing data testing and will be rolled out at the end of February, and it will illuminate the telephone tag that often occurs when we and FBC or other ILEX (phonetic) are working trouble tickets. This will be an electronic interface that will allow us to exchange trouble ticket information and updates with FBC on a real-time basis and also allow us to keep customers up-to-date on the status of trouble on their voice or data lines in real-time. This has been very successful. Just like we did with our provisioning electronic bonding, we plan to take the good work that FBC andbusiness have done and try to use this as a model to facilitate trouble tickets bonding with our other ILEX (phonetic) across the country. Moving on to the regulatory agenda, I think that what you're seeing in 2002 is a lot of pomp, probably the circumstance will not measure up to the pomp. I think we will see a lot of activity, a lot of voices and words being generated, perhaps not a lot of action, and probably not a lot of significant change in 2002. I think you will see primarily a fine-tuning of the Telecom Act of 1996. In Congress, we've got almost a stalemated situation in telecom. The House and Senate commerce committees are at polar opposites with respect to the main telecom players. In the house, the two ranking members of the commerce committee are really pushing the Bell company agenda and in the Senate, the ranking members of the Commerce Committee are pushing the competitive agenda. I think it is possible the infamous Toes and Dingle (phonetic) Act which would constitute a major rewrite of the Telecom Act and would really be to the benefit solely of the four Bell companies, is due to come up for a vote on February 27, and it might actually pass. It will not in our opinion go anywhere in the Senate. I think what you're going to see is with regard to Capitol Hill, you going to have the normal gridlock associated with Washington in telecom like you see with a lot of other things, and that's fine with us if that happens. I think the FCC, we will see some results there. It has a lot of notice of proposed rulemaking vowed as a result of the tri-annual overview. It's hard to imagine that it's been six long years since

the passage of the Telecom Act, but we are to the second tri-annual review. My expectation is that we may see some better performance metrics identified. We've hard a lot of talk about better enforcement from the FCC. I think will see progress in that area. We may see some restrictions ultimately put on local switching, where that starts to be phased out for certain classes of customers in certain urban areas, but I think what you're going to see is an evolution, not a revolution, and we're going to be continuing to conduct business as usual. Well, in summary, this has been--2001 was a very interesting year. I know the legendary investor from Omaha, Warren Buffett, recently wrote in Fortune magazine, the tour we've taken through the last century proves that market irrationality of an extreme kind periodically erupts. I think here in the new century, few investors, either Allegiance investors or other, would argue with the fact that we've almost in one of those constant periods of irrationality, both on the upside and the downside for the two years of the new century. Well, despite this challenging business market, I feel that 2001 was a year of significant accomplishments and milestones for Allegiance, rolling out a 36 market, posting an 80 percent topline growth rate and improving margins. Although we're not immune to the irrational valuation distortions of the capital markets, we have avoided the liquidity crisis, over leveraged capital structures, falling demand for services and overcapacity problems of much of the industry. And while many of our peers and competitors in the industry blame their lack of success on the economy, on the regulators, on changing technologies and changing market conditions, we remain confident. And this is important, that we can continue to execute our business plan and achieve success, even in capital the market's equivalent of nuclear winter. We plan no restructurings, no clampdowns and no other forms of financial engineering, just continuing to execute our plan and conduct business as usual at Allegiance Telecom. And when nuclear winter in the capital markets ultimately yields to a more traditional financial environment, which we're all eagerly awaiting, I am very confident that a profitable, high-growth financially strong enterprise can build tremendous shareholder value. And everyone sitting around the table at Allegiance on the management team that is an investor is certainly signed up for that happening. Thank you very much for joining us and now we would be very pleased to answer any questions.

THE OPERATOR:
(CALLER INSTRUCTIONS) Our first question comes from Jim Friedlan (phonetic) with Robertson Stephens.

THE CALLER:
A couple of questions. No. 1, in the first nine markets, in terms of sequential growth, it seems it was a little light compared to the rest of the Company, and also that EBITDA margins ticked down a little bit. I was wondering, first, if that just includes a non cash item but also what's going on in the core markets in terms of growth there? And then if you could just give some overall comments

on pricing and competition. Are you seeing fewer people out there, and especially as it relates to ARPU (phonetic), what are your assumptions going forward in order to make the numbers? And I guess the last question would be, in terms of guidance, does the guidance assume any improvement in the economy or the environment, or is that just sort of your run-rate operating levels that you are seeing?

MR. ROYCE HOLLAND:
Let me grab your last question first. As far as guidance, that guidance does not assume an improving economy. As I say, we've been in this--I think in the telecom area, this capital market's equivalent to nuclear winter, really since October of 2000, and even though we're tired of it we're ready to see it go away, and I'm sure I speak for the whole industry and all of our investors. We don't control that and we're not shaping our business to accommodate that. In terms of pricing and competition, I would tell you that there's been in the market we are in, our core business, the SNE retail market, there's been very little price changes. Competition still is primarily with the ILAX (phonetic). I mean, we used to say in the past, I know two years ago when the markets were in a frenzy and everyone was getting financed and there were hundreds of CLAX (phonetic) and other emerging telecom providers. On this call I got the question, which I got probably 100 times on calls and road shows, how is Allegiance going to get 5 to 10 percent market share and be successful when 20 other players out there are planning to do the same thing? You know, I haven't had that question in a long time because I guess those other 19 probably are not around anymore, and they're kind of limping, and certainly we do see less competition in the market today because there are fewer players. Although even back then we saw more competition from the ILAX (phonetic). That was our primary competitor at the low end of the market. Where you do see more competition from the ILAX (phonetic) is at that the low end of the market. If it is a one or two or three line customer that is voice only, like a beauty shop or something, it's a price sensitive market. The (indiscernible) win back programs do have some success. As you move up market a little into the service industries that take the product that Tony talk about, which is our fastest-growing product and we'll comprise the majority of our new business this year. That is a very nonprice sensitive market. That is a very feature sensitive market. It's really driven more than anything by the migration from either a dial-up or low speed dedicated connection for Internet access to a high-speed dedicated connection. I'm not talking gigabit Internet I'm talking 256 kilobit up to maybe a T1 on the top end along with bundling the voice service website domain registration, e-mail and the works. And that's not a competitive market. So in terms of the competitive landscape, you know it really has not changed a lot. In fact, from our standpoint, where you are in the market, you're being successful is probably less today because so many players that have gone away. With regard to the first nine markets, what you see on that particular page is a direct reflection of us doing our database

reconciliation. As you can imagine, I talked about taking out 30,000 resale lines, those 30,000 resale lines were just about all in those first nine markets. Also, I talked about all of the reconciliation basically had a nonmaterial effect, you know 5 million or less, on overall revenue in the fourth quarter. Nearly all of that was in the nine markets. So what you saw was really an anomaly due to us getting our systems cleaned up as a result of us putting in this series of automation to where we eliminate these problems going forward. So I wouldn't really draw any conclusions on any trend from Q3 to Q4. Q1 you will start to see the trends I think moving in the direction that you are accustomed to.

THE CALLER:
Great, thank you.

THE OPERATOR:
We'll now hear from Peter DiCaprio with (indiscernible).

THE CALLER:
I was wondering, the additional market that was opened up in the fourth quarter, what the associated or if there was any additional EBITDA expense associated with that? And also curious, I guess maybe for Tony, if the 60,000 installs this quarter are a little bit of an anomaly --or the 60,000 installs in January are those a little bit of an anomaly or is that kind of a run-rate that we should expect for the full first quarter?

MR. ROYCE HOLLAND:
Let me jump on the second one and then I'll hand it to Tony and then Tom can (indiscernible) the first from Peter.

COMPANY REPRESENTATIVE:
No, I don't think it was an anomaly at all. The thing I want to point out to you is, I gave you 60,000 lines, that was only the month of January and that was only unbundled loop and the Broadband products. That does not take into account some of our other product offerings. So I'm banging the table saying, "get ready, it's coming". Tom, do you want to do the other one?

MR. THOMAS LORD:
With respect to EBITDA, I told people this consistently, yes we take it in the shorts every time we open up a new city or two. It's a strategic decision. One of the things we did to try to stay inside the cash envelope (indiscernible) as Royce talked about, when things changed and we took our own small knife, no a large machete, to the SG&A side, is to weaken effect the cash envelope in spite of where ever there might be revenue weaknesses and stuff. But the fact that we had one city that was an extension city let say, may the EBITDA loss in the Boca Raton West Palm Beach area, much less egregious on the negative side as

compared to when you go into a city which has, call it an island, in Pittsburgh and you've got to open up the switch to people, the train and the entire enchilada. So, Pittsburgh definitely cost us more than Boca Raton but we have high expectations for both cities. I guess the good news is now that we're not opening up any new openingm, we're not growing cities, we're not acquiring cities, were going to do any that stuff that we can see right now until the capital markets come back and even then I'd have to question the sanity if we wanted to go do that. I think that the EBITDA drag will continue a little bit into the first quarter and then you are going to begin to see some fairly dramatic leverage in Q2, Q3 and Q4.

THE CALLER:
So, the Boca Raton West Palm market, was that originally scheduled for the first quarter of 2002 and you guys bumped it into Q4 '01?

COMPANY REPRESENTATIVE:
No. What we did is we changed couple of cities around that are going to be what I call island cities, and decided to really extend the market. If you look at the city of Los Angeles, it's it's state. If you look at Florida, I'm a resident of Miami, from Homestead, up to Boca Raton and West Palm Beach, it's a very eclectic community but I call it the city of I-95 South and so you can have multiple markets inside of these areas. We decided that was a more efficient use of capital that it was to try to go off and do let's say another independent city like Milwaukee or something. (indiscernible) Under consideration, just to add to that, I think that is something that a lot of folks don't appreciate, that the energy and the expenses that you incur when you are rolling out almost a market a month like we've been doing the last three years. And headcount keep adding the (indiscernible), the network expense and everything else. In the fourth quarter of this year there's an interesting statistic: we have a revenue per employee of $150,000 per head annualized, taking the quarter revenues and annualizing them. That was up from 135 I think it was in Q3. Well, bear in mind that headcount will stay fairly close to constant this year because we're not rolling out new markets. So we will be in the 4000 to 4300 range on headcount for the full year and we're planning to do 800 million in revenue, and our run-rate in the fourth quarter of this year is going to be up over $900 million, as far as a quarterly revenue run-rate, that's going to put us up somewhere in the neighborhood of $225,000 annualized per employee. That's the type of leverage that's very very inherent in leveraging salary and head count related costs of the SG&A and that's the main type of driver you are going to see moving us to EBITDA profitable in the second half of the year.

THE CALLER:
Tom, what do you think the impact was on the additional market on the EBITDA in the fourth quarter?

MR. THOMAS LORD:
Peter, If I knew that number I would give you an answer but I honestly don't.

THE OPERATOR:
We'll now hear from David Farden (phonetic) with J.P. Morgan.

THE CALLER:
Congratulations on the quarter. I just want to follow up on couple of things. I have to tee up for this one. The nonzero revenue impact from the intermediate deal, I mean there has been a lot of questions in the mark about whether or not that's in or will be in or is out of the guidance that you guys are giving, the 800 million, the quarterly ramp up that Royce gave us. So if you could just give us a sense of when we do get it, is it going to be added to the numbers that we're seeing? And then I have a couple of just detailed questions. One was on the SG&A write-off. Could you give us a sense of what was the reason why the 11 million was in the numbers as reoccurring charge reserves but the 5.5 million was not part of that charge, somehow separated? And then lastly, on the issue of looking at the quarterly guidance, we're obviously looking for a pretty substantial ramp into Q2 and maybe this falls to Tony a little bit, but can we compare and contrast where things are now in the fourth quarter, the impact of September 11th, the impact of opening new markets, etc., and where we're going to be in the second quarter in terms of the level, the ramp we're talking about? What's going to change between Q4 and Q2 that we can keep track of to get ahead of time that the numbers are going to be what they are supposed to be?

COMPANY REPRESENTATIVE:
In terms of the IBI guidance, I think that any investor on this call, our bank credit partners, high yield community, the equity community would find me to be an insane, mad, rating, foaming at the mouth individual if I was to hop on this call and take guidance up. I have not heard one telecom company take guidance up. So I'm not going to the first moron that you all nominate for fool of the year, okay? The strategic issue, however, you still might want to nominate me for fool of year for working here, but the strategic issue that we're dealing what is that, and I do the same thing you all do, I sat in your shoes. If you go back and look at what DigEx (phonetic) was and what WorldCom has, some people call me up and say they thought this was a two hundred million dollar a year animal. If it did $200 million a year I guarantee you we wouldn't be doing 800 million dollars. But the bulk of the revenue stream that is inside of Intermedia was of not much interest to Allegiance. I don't want to say that in an insulting fashion to customers we're going to try to keep, but you know I have a fanaticism about getting paid. And the net z's and the net zeros and the people of that lik that had credit problems, we don't care to have them dump their creditworthiness on my pristine balance sheet. And so, Chris Malinowski, I sat down with them, the

whole management team asked me and said, go look at each one of your accounts, retail. On an account by account basis, accessive profitability, specifically first those are OnNet and the look at the ones that are off net. In terms of the wholesale side of the business the stupidest thing I could do would be to put myself in a very awkward box and that would be go grab a sh*tload of revenues that are not going to stick, that we know are going to turn off and go away, so I'm going to reserve for those as we go into Q1 and Q2 and Q3 and not set myself up for a fall in 2003. Of all the acquisitions we make, every acquisition we've made to date with the exception of IBI were driven for one thing: an install customer base and a sales team. That brought revenues with it. The principal driving motivation factor behind IBI acquisition was to establish ourselves as a Tier 1 IP piering provider as a result of the organic growth that Tony has been delivering on integrated services access offering. We would have still acquired this asset if it had a revenue base of zero. So the entire focuse in terms of the purchase contract and everything that we worked with with WorldCom, who I have to say were great business partners in working with us, with a gun pointed at their head called the Department of Justice in terms of having to unload this entity, was simply to make sure that we had a handle on the cost structure, inside it, and that we've effectively had true (indiscernible) with their very very valuable asset (indiscernible). So when I say nonzero number, I mean a nonzero number. I don't know what it is right now. If I had that type of insight I would be retired at the beach. But what I have said to people is that after we've owned and run the enterprise for about six months, I think we will have a handle in terms of what it's going to be. The other thing that I can tell you, this is kind of interesting, is that I asked Chris after he'd gone through and looked at the names of some of the customers and I talk to Tony, and I said, lets see if there's any overlap in terms of existing IBI customers that were being targeted with sales proposals and quotas from Allegiance where we were going to basically go off and compete with that organization in terms of the success we were having with I-A D. We were surprised to find that we were either going to go get the business through a sales call, in coming in with the integrated services offering for the full envelope, or we were going to end up owning the customer as a result of the acquisition. So the fact that you got a lot of wholesale that we don't think we will keep, we know where the DigX (phonetic) revenues are going to go, and that there was some overlap in terms of the OnNet cities that we serve as targeted customers for what we're doing. The revenue contribution that I expect it will receive from IBI for from the year is not going to be that great. I amd glad I'm going to have some but it's not something that I've really dialed in on. In terms of the sgna write-off from an accounting convention perspective, the $11 million that we took was exactly how Clay and I've gone about in the past. Some might find it to be to high or to larger of a number, but if this economy comes back and bites us in the ass which we're not looking at happening, I want to be protected for a downturn even though I can't see that downturn. We can specifically identify things that were

not part of the normal accounting that we do that were inside the acquisitions we've made, some of the things that Royce as talked about, in terms of these data reconciliations, we found some billing systems that were inside some of the companies that were in the process to be migrated. I could have continued to have amoritized that over the balance of 2002. I think in this day and age, the favorite word I here is, in this environment. I wanted to air on the side of being overly writing off, overly expensing, overly finding kitchen sinks and overly witch hunting myself, overly microbiologing my own balance sheet and P&L, so that we would be able to present to you in the fairest light the Company's financial picture. In terms of the Q2 ramp, Tony you're up.

MR. ANTHONY PARELLA:
Couple of things I would say is changed since September 11th. Number one, I believe the sales ramp is back to full steam. There was some drag over into Q4 and wasn't necessarily that the new demand was not there, but that some of the backlog had aged as a result of not installing in September and early October in certain markets and that caused a bit of bigger cancel rate than we normally would have experienced. That's clearly behind us based on what I've seen in January and the early part of February. On the install side, I feel very confident that we have the factory of Broadband ramped up. It took us a year to really scale this thing and get the process down and the field organization trained from an install perspective. It's just not something you can turn on a dime to scale. I think we finally have scaled it to the point where I fully expect IAD to become a bigger line contributor but more importantly revenue contributor over the next year, to the point that right now they are running at about 50 unis (phonetic) versus IAD. I wouldn't be surprised to see it ramp up 6040 by year-end, and that translates into higher revenue per customer, certainly less churn because there is no wind back against it. So I think that makes it better. The other thing that I just want to add that is not really tied to September 11th but it is an issue, with all of the failures in our industry, there really is no one nationally competing against us, and with this Allegiance Select again, and the six line entry point with voice with 256 K. of data, I feel very confident that we've made the shift of being a me too player of Bell to really leveraging our strength of all these years building the foundation of this company. I'm very optimistic. I think it's going to be a good year.

THE OPERATOR:
Thank you gentlemen. At this time there appears to be no further questions.

MR. ROYCE HOLLAND:
Yes, I know we've unfairly long today, I want to thank you for hanging in there with us, with this being an end of the year type conference. We had a lot of information to get out. I hope it is very helpful to you, for our investors and for

our analysts we certainly hope a very successful and profitable 2002 awaits you as it does us. Thank you very much.

THE OPERATOR:
This does conclude today's conference. We thank you for your participation. (CONFERENCE CALL CONCLUDED)

ALL PRODUCTS AND SERVICES PROVIDED BY FDFN, INC. HEREUNDER, INCLUDING, BUT NOT LIMITED TO CALL TRANSCRIPTS, ARE PROVIDED "AS-IS" OR "AS AVAILABLE". EXCEPT AS EXPRESSLY STATED, FDFN HEREBY DISCLAIMS, AND YOU HEREBY WAIVE, ALL OTHER EXPRESS OR IMPLIED WARRANTIES, REGARDING THE CALL TRANSCRIPTS OR OTHER OF FDFN'S PRODUCTS PROVIDED HEREUNDER OR ANY PORTION THEREOF, INCLUDING BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WARRANTIES CREATED BY COURSE OF DEALING, COURSE OF PERFORMANCE, OR TRADE USAGE, AND ANY WARRANTIES OF NON-INFRINGEMENT. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, FDFN DOES NOT REPRESENT OR WARRANT THAT THE CALL TRANSCRIPTS WILL ALWAYS BE ACCURATE, COMPLETE, OR ERROR-FREE. THE FOREGOING EXCLUSIONS AND DISCLAIMERS ARE AN ESSENTIAL PART OF THE ORDER FOR THIS DOCUMENT AND FORMED THE BASIS FOR DETERMINING THE PRICE CHARGED FOR THE DOCUMENT.

FDfn

FAIR DISCLOSURE
FINANCIAL NETWORK

PGA

B-43
AB 9-25-2001

allegiancetelecom, inc.

Risk and Control Summary – Consolidated Order Entry System

The Risk and Control matrix on the following pages outlines the evaluated risks with associated controls, control gaps, and recommendations. Below is an illustration and explanation of the Risk and Control matrix:

Risk number for referencing purposes.

Identifies the Business Risk Evaluated

Describes the recommendation based on Arthur Andersen's Global Best Practices related to each identified gap.

#	Business Risk	Identified Controls	Gaps & Business Impact	Control Recommendation

Outlines the identified controls that mitigate the Business Risk evaluated.

*Observations have been identified as Gaps. Gaps are deficiencies where no process or procedure has been designed to address an identified risk or where processes and procedures have been designed, but residual risk still exists that must be appropriately mitigated. For each Gap the **Business Impact** has been evaluated. Business impact refers to the potential business implications of the residual risk.*

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

AA 01736
CONFIDENTIAL

Clay Myers #
212

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
	Unauthorized individuals may have access to the COE system.	The following user groups exist within COE and are the only groups which may access COE: 1. Sales administrators/engineers – create and submit orders 2. Read-only group – only view sales order information 3. Customer Implementation – receive and accept/reject orders 4. MACD – create and submit orders 5. Customer Care – create and submit orders 6. Dedicated Internet – accept/reject Internet orders 7. Billing – receive and accept/reject orders 8. Portback – create, submit, receive, accept/reject portback orders only	COE privileges assigned to each user group are not clearly defined and documented.	Clearly establish, document, and enforce user privileges given to each COE user group
		Access to COE is granted on a business need basis determined by the IT department. Business need is determined by referencing the individual's job title (per the intranet) and the business group the individual belongs to (per Outlook). The IT department also confirms that the individual is an Allegiance employee by verifying the email address.	None Identified.	None.
		A report indicating the types of user groups accessing COE and the number of logins onto COE is reviewed by the IT department on a monthly basis to assess the stability of the COE system.	Although the IT department may review user activity reports to assess the stability of the COE system, user activity reports/logs denoting access to specific COE screens containing sensitive information are not monitored or maintained. Users are able to have multiple instances of COE active simultaneously. Therefore, a valid user may be able to make sensitive COE customer information available to an unauthorized user.	Develop reports identifying screens containing sensitive customer information and monitor the user groups accessing those screens. Consider limiting the number of logins a user may have active at one time (limit to a desktop).

AA 01737
CONFIDENTIAL

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		User Ids and initial passwords are assigned to COE users simultaneously when access is granted to the COE system. The guideline is for users to immediately change the initial password assigned to the user.	Although guidelines for changing passwords initially assigned to users exist, these guidelines are not automatically enforced and compliance is not monitored.	Users should be auto-prompted to change passwords at their initial login attempt to COE.
		Sales managers and sales representatives have read-only access to the COE system and are able to view all sales order information within COE. However, during the last 2 days of the month, these users are locked out of the system to reduce system performance issues.	None Identified.	None.
	Orders and/or customer information may be inaccurately collected and created in COE. Orders may also be forged/manipulated to generate excess commissions.	The sales manager confirms the following items on a written sales order to a customer service request (CSR) received from the ILEC prior to entry in the COE system: • Within Allegiance's "footprint" • Allegiance's ability to offer similar or like-for-like products and features	None Identified.	None.
		The sales manager calls the customer to: • Thank customer for order • Confirm legitimacy/authorization of the order If the order is unauthorized, the sales representative is dismissed. Sales manager signs off on authorization and places the following information in a log after calling the customer: • Date • Time • Account Name • Individual spoken to for confirmation of order authorization	While sales managers call the customer to confirm the legitimacy of the order, they do not confirm the actual details related to the order. Sales managers are also paid commissions based on the performance of the sales representatives they manage. Therefore, the risk of excess commission generation through forged/manipulated orders is not mitigated by the sales manager's review.	The responsibility of confirming the legitimacy of an order, as well as the actual details of the order, should be assigned to an individual that is not affected by commission generation. This segregation of duties will mitigate the risk related to the manipulation of orders to generate excess commissions.

AA 01738
CONFIDENTIAL

App. 492

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		Sales engineers review the Order Packet (written order, CSR, and Credit Application) to confirm: • Validity of items in mandatory fields • Validity of phone numbers listed • Validity of features listed • Allegiance's ability to offer similar or like-for-like products and features	None Identified.	None.
		On-line validations of information are performed by COE accessing the MSAG and InfoNet systems to ensure NPA-NXX colocation assignment data entered initially into COE is correct. The MAP tool may also be referenced for validation.	InfoNet may not always be accurate in identifying NPA-NXX colocation assignments. Therefore, an informal policy exists whereby users may consult the Map Tool on the intranet to confirm InfoNet results. COE Support is contacted to update InfoNet if inaccuracies are discovered.	Perform a periodic verification/reconciliation of the InfoNet and Map Tool in order to establish one system with complete and accurate NPA-NXX colocation assignments that will be used to perform on-line validations while orders are being entered into COE.
		Usually, sales orders are only created in COE for customers whose credit has been pre-approved.	On the last day of each month, an order can be created in COE without pre-approved credit if a current bill copy containing no delinquent items has been obtained from the ILEC. This is done to allow any back-log of orders to be entered into COE before the month's end. If credit is not approved within 24 hours, the order is immediately manually cancelled out of the system.	Develop COE's ability to automatically cancel orders which are not credit approved within 24 hours of entry.
		For Resale orders, the Billing Department: • Compares the original written Resale orders to the orders input into COE and verifies accuracy of input • Verifies the existence of a signed Letter of Authorization for a new customer	None Identified.	None.
		For UNE orders, the PSR Team in the Customer Implementation Group: • Compares the original written UNE orders to the orders input into COE and verifies accuracy of input • Verifies the existence of a signed Letter of Authorization for a new customer	None Identified.	None.

AA 01739
CONFIDENTIAL

App. 493

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		For Non-UNE orders, the Specials Team in the Customer Implementation Group: • Compares the original written Non-UNE orders to the orders input into COE and verifies the accuracy of the input • Verifies the existence of a signed Letter of Authorization for a new customer	None Identified.	None.
		Large or unusual orders are reviewed by a Commissions Analyst. Verification of the validity of large or unusual orders is confirmed with the sales manager, city VP, regional VP, and/or national VP. Sign-off is also received from these individuals. Commissions are capped at $15,000 per month with the excess carried over to the next month for individuals with large orders.	Although the validity of large or unusual orders is verified with various individuals, formal levels of authorization have not been established.	Formalize the authorization levels associated with verifying the validity of large or unusual orders by establishing thresholds based on specific criteria (type of order, number of lines, commission amount, etc.).
	Access parameters within COE may not be adjusted in a timely manner for personnel changes.	For sales representatives, an automatic feed of termination dates is sent from the JD Edwards system to COE on a daily basis. The guideline is for a terminated sales representative to be manually removed from the COE system within 24 hours. For all other users, the supervisor of the terminated employee must send an email requesting user deactivation to the COE support group in IT.	Although guidelines exist regarding user deactivation of terminated employees, formal policies and procedures are not currently in place that ensure deactivation of a user in COE. Additionally, the deactivation of all users (other than sales representatives) relies on email notification. All terminated users must be manually deactivated in the COE system by the COE Support in IT.	Automate the deactivation of users in COE based on an automatic feed of termination dates from the JD Edwards system for ALL employees. Monitor the deactivation of users in COE by conducting a periodic reconciliation of users in COE to active employees.
	Customer Account Level information from COE may not be accurately imported into Network Strategies.	Customer Account Level information is automatically sent to a flat file when an order is "submitted" in COE. The flat file is automatically sent to Network Strategies twice a day.	Edit checks are not performed in the flat file before Customer Account Level information is sent to Network Strategies.	Automate the transfer of Customer Account Level information into Network Strategies through an interface from COE. The interface should perform information validations and appropriate data format conversions for the data to be accepted into Network Strategies. Error messages should be returned if the data was not accepted by Network Strategies
		Billing performs a manual reconciliation of the customers received in Network Strategies to the customers sent by COE on a daily basis.	Although a manual reconciliation of limited customer data is performed, the integrity of the data in Network Strategies may be compromised due to human error.	

AA 01740
CONFIDENTIAL
App. 494

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
	Existing orders in COE may be modified inappropriately and an audit trail of activity within COE may not exist.	Only groups creating and submitting the order in COE may modify the order until it is in the "accepted" status within COE. After an order has reached the "accepted" status, approval from Vicki Fowler, Vice President of Sales Engineering, or Denise Crane, Vice President of Customer Implementation, is necessary to change an order. At this point, only the IT department has the ability to change the order. If an order has been "rejected", it is automatically sent back to the group that created the order. The order may then be changed and "resubmitted" in COE.	None Identified.	None.
		Feature change orders (orders not affecting line count) can only be initiated for existing customers. Feature change orders are usually entered in COE by the Customer Care MACD Group and processed in COE by the Customer Implementation MACD Group. However, feature change orders may be entered directly into TBS by the Customer Implementation Support Group. Direct order entry into TBS without accompanying order entry into COE is monitored through analysis of the "Installs Complete in TBS not in COE" exception report. This report identifies any line-count affecting orders entered into TBS that were not entered into COE. The Customer Implementation Group manager reviews the "Installs Complete in TBS not in COE" report on an unscheduled basis.	Feature change orders are the only types of orders allowed to be entered directly into TBS without initially being entered into COE. After the order is created in TBS, it will retroactively be created, submitted, and accepted in COE. The correct product service request (PSR) number is also entered into COE for the order that was entered into TBS. Although the Customer Implementation Support is the only group formally allowed to enter such orders (usually for order escalation purposes), others may have the ability to do so. Immediate termination is the penalty for entering an order directly into TBS without permission from the Customer Implementation Group manager. The "Installs Complete in TBS not in COE" exception report is not reviewed on a regular basis.	Remove all users' ability to enter orders directly into TBS except for the Customer Implementation Support group, if deemed necessary after thorough review of business processes and business reasons. Review the "Installs Complete in TBS not in COE" exception report on a regular basis.
		COE will automatically reduce line count when an order is cancelled.	None identified.	None.

AA 01741
CONFIDENTIAL
App. 495

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		The COE system will allow transactions to be backdated in the following manner: • If transactions are entered into COE on the 1^{st}-5^{th} day of the current month, the transactions may be back-dated to the previous month because the previous month has not yet been closed. • If transactions are entered into COE on the 6^{th}-last day of the current month, the transactions can only be back-dated within the current month because the previous month has been closed.	For the first 5 days of the current month, transactions may be back-dated to the previous month. Therefore, line count for a certain month may be manipulated within COE.	Develop a report to identify all orders in COE with a sales entry date not in the current month This report should be created after the 5^{th} day of each month and thoroughly reviewed for unusual activity prior to closing the month.
		A COE History table exists that tracks the following items for each modification made to an order in COE: • Date • Time Stamp • User ID • Action Taken Only the IT department has the ability to modify the history within the COE History table. Changes made to the COE History table must be made through Oracle. Thus, the changes are maintained in Oracle's history table.	The COE History table is not reviewed on a regular basis. Currently, the COE History table is referenced on an exception basis if issues with specific orders have been identified.	An appropriate individual should be assigned the responsibility of monitoring the COE History table on a regular basis to identify any unusual order activity.
		History of an order can also be reviewed through Chartit reports. The reports can be drilled down to the following level of detail: • Office • Team • Sales representative • Order • History	None Identified.	None.

AA 01742
CONFIDENTIAL

App. 496

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
	Orders within COE may not be processed in a timely manner.	Sales engineers review daily reports indicating the order status in COE of the orders produced by the sales teams. If an order remains in a department's queue for 3 or more days, the issue is investigated.	All departments are not fully aware of the order status tracking ability within COE.	Educate appropriate COE users of the order status tracking ability within COE.
		Backlog summary reports are created and reviewed daily by the Customer Implementation Group. The summary reports contain the following information: • number of orders residing in a particular status within COE by state • average number of days related to the orders	None Identified.	None.
	Automatic transfer of data through the Application Programming Interface (API) may be incomplete or inaccurate for UNE and Non-UNE orders.	Before a Product Service Request (PSR) shell is created in TBS, the API Interface performs the following validations on the Customer Account level information being transferred from COE to TBS: • County • Street suffixes • Street prefixes	None Identified.	None.
		The API Interface also transfers the COE ID to TBS and returns the PSR Number to COE.	Within COE, the COE ID and PSR Number are contained in separate fields. Within TBS, only the PSR Number is contained in a field; the COE ID is placed in the notes section of the order. Therefore, the ability to run queries on COE IDs and PSR Numbers within TBS is limited.	Work with the developers of the TBS system to determine if an additional field can be created to house the COE ID in TBS. The additional field will facilitate querying abilities within TBS.
		A "Missing PSRs" exception report is reviewed every couple of days by the Customer Implementation Group to resolve orders having an "accepted" status in COE but not having an associated PSR Number in COE, thereby identifying incomplete data transfer through the API Interface.	None Identified.	None.

AA 01743
CONFIDENTIAL
App. 497

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
	Provisioning plans manually entered into TBS may be inaccurately modified due to established daily production schedules for UNE and Non-UNE orders.	Accuracy of the order detail information and provisioning plans manually entered by the PSR Team (UNEs) or the Specials Team (Non-UNEs) is reviewed periodically (on a sample basis) by the manager of the Customer Implementation Group.	None Identified.	None.
		For large UNE orders, the Single Point of Contact (SPOC) group will validate the accuracy of provisioning in TBS to the customer service request (CSR) and local service request (LSR).	None Identified.	None.
	Automatic transfer of data through Electronic Bonding may be incomplete or inaccurate.	The LSR Team (UNEs) or the Broadband Engineering Team (Non-UNEs) reviews on-line exception reports (Gateway reports) on a daily basis to determine if a Firm Order Confirmation (FOC) was transferred into TBS correctly. The LSR Team (UNEs) or the Broadband Engineering Team (Non-UNEs) will manually key these FOCs into TBS.	None Identified.	None.
	Orders may not be provisioned in the switch on an accurate or timely basis.	UNE orders are automatically provisioned in the switch through the Automated Provisioning Engine (APE) and the related translation task in TBS is closed automatically. Exception reports of unsuccessful automatic provisioning of UNE orders are produced and reviewed on a regular basis by the Translation group. The Translation group then manually provisions these orders in the switch and manually closes the related translation tasks in TBS. For UNE and Non-UNE orders, the SPOC group performs a 48-72 hour dial-tone test to verify the line is provisioned and operational. The SPOC group also calls the customer to verify line is operational.	The Received Firm Order Confirmation (RFOC) task closure is done manually in TBS and is the catalyst for orders to be sent to the Automatic Cut Sheet (UNEs) and the LNP Tracker (Non-UNEs). The Record Issue Date (RID) task closure is done manually in TBS and it initiates the transfer of UNE and Non-UNE orders to be provisioned in the switch to the Translation group. All Non-UNE orders are manually provisioned in the switch.	Research automation possibilities related to the RFOC and RID tasks in TBS. If automation cannot be achieved, perform a periodic reconciliation of task closures. Fully automate provisioning of Non-UNE orders in the switch. Design exception reports to identify unsuccessful automatic provisioning of Non-UNE orders and review them on a regular basis.

AA 01744
CONFIDENTIAL

App. 498

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
	Lines may actually be installed but may not be marked as "installed" in COE or TBS.	For UNEs, when the SPOC group hits "Send and Save", the following functions occur automatically: • the Related Due Date (RDD) task is closed in TBS • the order status in COE is changed to "installed" • billing is activated in Network Strategies through Billing Interface (BIF) The "FOC With No Install" report is an exception report generated by TBS identifying orders for which a FOC has been received but the RDD or DD tasks have not been manually closed in TBS. For UNEs, the "Send and Save" button may not have been clicked in COE. SPOC managers review this report on a daily basis. The "Installs Complete in TBS Not in COE" report is an exception report used to identify when the RDD or DD tasks are closed in TBS but the order status may not have been updated as "installed" in COE. For UNEs, the order status may not have automatically changed to "installed" in COE. SPOC managers review the status of all orders on a weekly basis. The "Installs Complete in COE Not in TBS" report is an exception report used to identify when the RDD/DD task may not have been closed in TBS but the order status was updated as "installed" in COE. For UNEs, the RDD task closure may not have automatically occurred. SPOC managers review the status of all orders on a weekly basis.	DD task closure is done manually in TBS and is the catalyst to have billing information sent to BIF.	Research automation possibilities related to the DD task in TBS. If automation cannot be achieved, perform a periodic reconciliation of task closures.

AA 01745
CONFIDENTIAL
App. 499

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		For Non-UNEs, the LNP Tracker report indicates lines cut the previous day and the closure of the associated Related Due Date (RDD) or Due Date (DD) tasks in TBS. The Broadband Provisioning Group reviews the report on a daily basis and performs the following tasks: • Identifies situations when the field operator may not have manually closed the RDD or DD tasks in TBS after installing a line and calls the field operator • Manually changes the status of lines to "installed" in COE for all lines where RDD/DD tasks are closed and the cut date was the previous day The "FOC With No Install" report is an exception report generated by TBS identifying orders for which a FOC has been received but the RDD or DD tasks have not been manually closed in TBS. For Non-UNEs, the RDD or DD tasks may not have been manually closed in TBS. Field operator managers review this report on a daily basis. The "Installs Complete in COE Not in TBS" report is an exception report used to identify when the RDD/DD task may not have been closed in TBS but the order status was updated as "installed" in COE. For Non-UNEs, the RDD/DD tasks may not have been manually closed in TBS but the status of the order was manually changed to "installed" in COE. Field operator managers review the status of all orders on a weekly basis. The "Installs Complete in TBS Not in COE" report is an exception report used to identify when the RDD/DD tasks are closed in TBS but the order status may not have been updated as "installed" in COE. For Non-UNEs, the status of the order may not have been manually changed to "installed" in COE. Field operator managers review the status of all orders on a weekly basis.	The entire Non-UNE install process in COE is manual: • if LNP is not necessary, the Broadband Provisioning group manually closes the RDD or DD tasks in TBS and manually changes the status of the line to "installed" in COE • if LNP is necessary, the field operators manually close the RDD or DD tasks in TBS after the line is ported over and the Broadband Provisioning group will manually change the status of the line to "installed" in COE	Achieve the same level of automation in the Non-UNE install process in COE that exists in the current UNE install process in COE.

AA 01746
CONFIDENTIAL
App. 500

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		Physical line installation is not required for Resale orders.	For Resale orders, the order status in COE must be manually changed to "installed" by the Billing department after the product/feature order information has been entered into Network Strategies and after billing has been activated.	Achieve automation of "installed" status updates in COE.
	Billing and order information in Network Strategies may be inaccurate, incomplete, or inconsistent with COE.	For UNE orders, when the PSRFOC task is manually closed in TBS, billing information is automatically sent to the Billing Interface (BIF). When the SPOC group clicks "Send and Save" in ACS, billing and product/feature order information is automatically sent to Network Strategies.	None Identified.	None.
		None Identified.	For Resale and Non-UNE orders, the Billing department manually enters billing and product/feature order information into Network Strategies. Thus, the likelihood of inaccurate entry due to human error is high.	For Resale and Non-UNE orders, automate the transfer of product/feature and billing information into Network Strategies through BIF.
		None Identified.	All information (billing, customer, adjustments, etc.) in Network Strategies can be manually changed by the Billing department and the changes are not automatically updated in COE. Additionally, if information is changed in COE, it is not automatically updated in Network Strategies. A task is placed in the Billing department's queue identifying a change to be manually made in Network Strategies.	Restrict user's ability to change information in Network Strategies and establish formal policies and procedures mandating the initiation of an information change through COE. Configure the COE and Network Strategies systems to automatically update information when changes are made.
	Disconnect orders may not be processed appropriately within/between COE, TBS, and Network Strategies.	Disconnect orders follow the same processing in COE as any other order. All disconnect orders are only routed to the Customer Implementation MACD and Portback groups.	The disconnect process is heavily dependent on manual processes: • DD task must be manually closed in TBS • Order must be manually disconnected in COE • Order must be manually disconnected in Network Strategies based on task triggered by disconnect in COE	Automate the disconnect process in the COE, TBS, and Network Strategies systems Perform disconnects reconciliation between the three systems on a periodic basis.

AA 01747
CONFIDENTIAL
App. 501

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		A daily report is generated identifying any line count affecting MACD order. This report is worked on a daily basis by the Customer Implementation Group and is used to manually disconnect lines in COE.		
	Unauthorized individuals may have access to COE's reports and reporting capabilities.	Most reports generated by COE must go through the Report Development Group because users are not given querying/reporting capabilities on COE data. Limited individuals within the Marketing and Finance departments may utilize "Impromptu" to generate some COE reports. "Impromptu" is a report creation tool that extracts COE summary data from a pre-defined data mart.	None Identified.	None.
		Approximately 20% of the reports generated by COE are ad-hoc reports. A request must be submitted to the Report Development Group. Approval for the ad-hoc report is granted based on the purpose of the report, the sensitivity of the information on the report, and the business function of the individual requesting the report.	None Identified.	None.
	Customer information may be deleted from COE resulting in inaccurate customer counts.	Customer information cannot be deleted out of COE. All customer information for current and former customers is retained for historic purposes. Active customer counts are reported based on queries identifying customers with an active line count > 0.	None Identified.	None.
	Reconciliation between COE, TBS, Network Strategies, and the switch does not occur regularly.	Allegiance has the ability to manually reconcile COE, TBS, Network Strategies, and the switch through the use of its True-Up reports.	Because the effort to perform reconciliations between COE, TBS, Network Strategies and the switch is very headcount and system intensive, it is not performed on a regular basis.	Perform a line count, line status, and customer count reconciliation between COE, TBS, Network Strategies, and the switch on a quarterly basis. At a minimum, the reconciliation should be performed on an annual basis.

AA 01748/
CONFIDENTIAL

App. 502

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		Project "Gold Mine" was a reconciliation between COE, TBS, Network Strategies, and the switch. It was performed January-May of 2001. The following reconciliations took place: 1. Reconciled lines and line information at the telephone number level (because the switch does not contain customer level information): • Switch to TBS • Switch to Network Strategies 2. Reconciled line count at the customer level (because COE does not contain specific telephone number information): • COE to TBS • COE to Network Strategies	Results of Project "Gold Mine": 1. Approximately 20,000 lines were added to Network Strategies 2. Added many (<20,000) lines to COE 3. Added many (<20,000) lines to TBS The lines added to Network Strategies were mainly due to manual process of inputting lines and activating lines in Billing that surrounded all products (UNEs, Non-UNEs, and Resale). Since Project "Gold Mine", the input and activation process for UNE products has been automated. The lines added to COE were mainly Resale lines. Since Project "Gold Mine", a monthly resale line count reconciliation between COE and Network Strategies is performed. The lines added to TBS were mainly due to the DD tasks not being closed. DD task closure identifies a line as installed in TBS and it is still a manual process for UNE and Non-UNE orders.	None.
		Project "White Glove" will be performed in the future and will focus on reconciling disconnected lines and portbacks. Reconciliation of the LEC's cable pairs will be performed to determine if: • Facilities used by Allegiance's resale customers have been released because the customers have been ported back to the LEC AND • LEC has stopped billing Allegiance for facilities no longer being used by Allegiance's former resale customers	None Identified.	None.

AA 01749
CONFIDENTIAL

App. 503

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		Resale line count reconciliation between COE and Network Strategies is performed manually on a monthly basis. Reports from COE and Network Strategies are compared to the LEC's count of resale lines (as recorded on LEC's CD-Rom) to determine line count discrepancies. The Resale Team is able to enter orders into COE to correct line count discrepancies.	None Identified.	None.

	Front-end and back-end sales commissions will be calculated incorrectly if line information in COE is incorrect.	Front-end and back-end commissions are calculated automatically by the Sales Commission System after obtaining the following information from the appropriate systems:
		• COE
		  • Account name (customer)
		  • Lines sold/installed
		  • Products sold to customer
		  • Sales representative
		• Network Strategies – feature level information
		• Rep Management System – individual's rank
			None Identified.	None.

		The following controls (mentioned earlier) also mitigate the risk associated with inaccurate line count in COE: For Resale orders, the Billing Department compares the original written Resale orders to the orders input into COE and verifies accuracy of input. For UNE orders, the PSR Team in the Customer Implementation Group compares the original written UNE orders to the orders input into COE and verifies accuracy of input. For Non-UNE orders, the Specials Team in the Customer Implementation Group compares the original written Non-UNE orders to the orders input into COE and verifies the accuracy of the input.		

AA 01750
CONFIDENTIAL

App. 504

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business Impact	Control Recommendations
		The "Installs Complete in TBS Not in COE" report is an exception report used to identify when the RDD or DD tasks are closed in TBS but the order status may not have been updated as "installed" in COE. A manager reviews the status of all orders on a weekly basis. The "Installs Complete in COE Not in TBS" report is an exception report used to identify when the RDD/DD task may not have been closed in TBS but the order status was updated as "installed" in COE. A manager reviews the status of all orders on a weekly basis.		
	Cancelled lines may not be appropriately reflected in sales commissions, resulting in the overpayment of commissions.	The sales force (city VPs, sales managers, and sales representatives) does not initially process cancelled orders. Sales engineers, who are not commissioned, are responsible for entering and processing cancelled orders. Segregation of sales and cancellations ensures cancelled orders are not withheld in order to minimize effect on commissions.	None Identified.	None.
		• After a cancel order is processed, the system will automatically deduct the lines from the front-end commission line count. The front-end commission line count may be negative. • Allegiance's commission policy does not allow the netting of front-end commission line counts against back-end commission line counts. Therefore if the front-end commission line count is negative when commissions are calculated for the current month, it will be carried over to the next month.	None Identified.	None.

AA 01751
CONFIDENTIAL
App. 505

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

Risk and Control Summary – Consolidated Order Entry System

Risk ID	Business Risks	Identified Controls	Gaps & Business impact	Control Recommendations
		Cancelled lines for which the sales representative is not penalized are reviewed on a case by case basis. The following actions may be taken by the IT department and the Commissions Analyst: • Change the sales representative's status in COE to a "house representative" after receiving approval from the sales manager or city VP • Manually change the commissions in the Pay file with an adjustment	None Identified.	None.
	Commissions may be paid to terminated employees.	Terminated employees are not deleted from the Sales Commission System in order to preserve the integrity of the history maintained by the system. Pay file (contains all calculated commissions to be paid for the previous month) is manually compared to the termination dates maintained by Human Resources. Usually, pay file commissions related to terminated employees are then manually deleted before the Pay file is sent to the Payroll department.	If employees are terminated mid-month, back-end commissions for the full month may be paid because it requires too many resources to determine which lines were installed before the employee's mid-month termination date.	Evaluate the business need for and cost effectiveness of assigning separate responsibility for determining back-end commissions for employees terminated mid-month and evaluate the possibility of automating the termination date to install date comparison dependent upon the commission policy.

PROPRIETARY AND CONFIDENTIAL INFORMATION – NOTICE
Not for use by unauthorized employees or disclosure outside Allegiance Telecom except under written agreement

AP-293 Sampling Tool – Test of Combined Control Results

Client	Allegiance Telecom, Inc.
Audit Date	31-Dec-01
Prepared by / Date	Andy Barron on 8/13/2001
Account Name / Description of Test	End-User Accounts Receivable Confirmations
Definition of an Error (Misstatement)	Accounts Receivable per the customers' records does not match Allegiance's accounts receivable subsidary ledger
RCD ref.	# 374

Sample Selection Technique	Random	Systematic	Haphazard
			X

Applicability:

This worksheet plans the sample size and evaluates a test of combined control results. It is applicable when:

1. Our initial tests (inquiry, observation and inspection) indicate that the design of the specific risk and pervasive controls is effective and the controls are in place.
2. The monetary value of an account or balance will be sampled to verify that the combination of controls over it has adequately prevented/detected misstatements. This might be appropriate if we cannot perform individual tests of one or more key specific risk controls.
3. Inherent risk is moderate or high, but we are relying on specific risk controls to significantly mitigate that ris
4. Accordingly, we expect very little misstatement of the balance.
5. Sampling is appropriate for testing for the type of misstatements that should be prevented by the controls. The primary concern should be overstatements.

Before starting:

1. Determine Tolerable Error. The amount provided by the Materiality Tool (Form AP-110) should be reduced for a test of transactions (e.g., revenue) for a period less than the full year.
2. Refer to the RCD that links a business risk with a financial statement account or balance. The inherent risk of misstatement should be moderate or high.
3. Assess the effectiveness of the design of the controls over that account (adequate or excellent).
4. Define the population to be sampled; i.e., the set of detailed records supporting the account. Determine that the population is complete (i.e., contains all the relevant records).
5. Consider whether sampling is appropriate for testing for misstatements. The primary concern should be with overstatements of the population. Sampling is not effective for searching records for unrecorded items (e.g., invoices omitted from accounts payable).
6. Define the conditions that will represent errors (misstatements) in the sample items.
7. Determine the population's balance (monetary amount) and the approximate number of items it contains. If credit items are significant (say, over 10% of the balance), separate them from the debits (and consider testing them separately).
8. Create a "100% stratum" if we want to examine certain items that are large or are the most likely to contain errors. (This helps screen risk and can reduce the overall testing scope.) Any items exceeding Tolerable Error must be included. The rest of the population (the "sampled stratum") is to be tested by a representative sample.
9. Make a rough estimate of expected error; i.e., our expectation of the monetary amount of error in the sampled stratum. This tool will suggest a default value, which you may adjust if appropriate.
10. Determine the sample selection technique . The sample should be representative. Therefore, random or systematic selection is preferable, but haphazard selection is acceptable when those techniques cannot be used (see AOP 10.2.4.2).

Clay Myers
#213

AP-293 Sampling Tool – Test of Combined Control Results

Sample Size Estimation

Tolerable Error *Maximum total misstatement of the account that is acceptable* 3/ 12,142,418

Assessed Effectiveness of the Design of Controls over the Account *(Adequate = default)*

Adequate	Excellent
X	

	Date of Records	Total Balance	100% Stratum	Sampled Stratum
Account Balance - Strata Totals	30-Jun-01	3/ 84,766,849 ✓	3/ 0	3/ 84,766,849

NOTE: Create a *<u>100% Stratum</u>* *for any* *<u>targeted items</u>* *that you intentionally select because they are very large or are the most likely to be misstated. Any items exceeding Tolerable Error* *<u>must</u>* *be included.* *<u>All these items are to be examined</u>* *(100% tested). The* *<u>Sampled Stratum</u>* *(i.e., the remaining items) is to be tested by a representative sample.*

Approximate Number of Items in Sampled Stratum Ⓐ

	Default	
Expected Error in Sampled Stratum- Amount *(net overstatement)*	3/ 2,428,484	3/ 2,428,484
% of Tolerable Error	20%	20%
% of Stratum Balance	2.86%	2.86%

Range of Expected Error

Minimum	*Default*	*Maximum*
1,214,242	2,428,484	4,856,967

The *<u>default</u>* *value is appropriate for the stated conditions, but you may select another amount within the range.* *<u>CAUTION: Do not enter an amount smaller than the default unless you are reasonably sure of the error conditions.</u>* *If you understate this value, the sample size may to be too small for those conditions.*

Sample Size - for Sampled Stratum B-50 3/ 11

T/A to preliminary materiality tool at UG-15 / P2

✓ T/A to 6-30-2001 end-user agings, footing required

Ⓐ The engagement team notes this field does not affect the sample size as long as it is greater than the sample size. For this test, the number of items is the number of customers, which is more than the sample size. The information was not readily available; therefore the engagement team did not complete this field. AB 11-26-2001

AA 05664
CONFIDENTIAL

AP-293 Sampling Tool – Test of Combined Control Results

Evaluation of Sample Results

	Total Balance	100% Stratum	Sampled Stratum
Account Balance	2/ 84,766,849	2/ 0	2/ 84,766,849
Tolerable Error			2/ 12,142,418

Enter the sample results (negative value = understatement).

	Sample Size	Book Value	Error Amount	Error %	Error Amount
100% Stratum - Total Error					0
Sampled Stratum - Totals of Sample	2/ 11	B-50 25,651.38	B-50 13,354.02	52.06%	
Projection for Stratum					44,129,329
Projected Error (Point Estimate of Overstatement)					44,129,329

Evaluation Summary -

[ ] **Favorable** - Projected Error for the Sampled Stratum does not exceed Expected Error. If the nature of the errors and the outcome of other, related work do not suggest any unexpected problems, the results indicate that (1) controls are effective and (2) the misstatement is not significant.

[x] **Unfavorable** - Projected Error for the Sampled Stratum exceeds Expected Error. There is an unplanned risk that the actual misstatement exceeds Tolerable Error -- (B)

(1) If the projection is only **slightly** greater than Expected Error and other, related work reveals no other concerns, this risk normally is acceptable and the controls may be considered effective.

(2) Otherwise, this unplanned risk is not acceptable. The results do not indicate that the controls are effective. Consider requesting the client to strengthen controls and/or review for and correct errors before we perform additional tests of the account. Plan on performing tests of the improved controls and/or tests to reduce residual risk.

Indicate your response to unfavorable results on the RCD.

(B) Based on our confirmation / subsequent receipts testing, the engagement team notes the results are unfavorable. See monetary unit sampling of end-user accounts receivable at B-100. AB 11-26-2001

AA 05665
CONFIDENTIAL

FCC Form 477 – Local Competition and Broadband Reporting — **Cover Page - Name & Contact Information**

All filers must complete this section. File data as of: December 31, 2000

1. Filing Status: Click and select from drop-down list
2. Company:

3. Indicate the category that best describes the operations covered by this filing.
   Click and select from drop-down list

4. Filers must report separate data for ILEC and non-ILEC operations.
   Use the following drop-down box to indicate whether this worksheet contains data for ILEC or for non-ILEC operations.
   Click and select from drop-down list

5. Use the following drop-down box to select your company, parent or controlling entity name. Select "not shown" if it is not in the list. See instructions Section IV-B-1 for information on preparing file names.
   Not shown below

   If you selected "not shown" above, then provide the following:

   Name of company, parent or controlling entity.

6. State. Click and select from drop-down list

7. Contact person (person who prepared the data contained below).

8. Contact person telephone number and e-mail address.
   phone
   e-mail

9. Indicate whether this is an original or revised filing.
   Click and select from drop-down list

10. Indicate whether you request non-disclosure of some or all of the information in this file because you believe that this information is privileged and confidential and public disclosure of such information would likely cause substantial harm to the competitive position of the filer.
   Click and select from drop-down list

11. If you requested non-disclosure in line 10, indicate if this is your complete or redacted file.
   Click and select from drop-down list

Please review instructions before completing form.

Reminders:

1) Virus check your floppy diskettes or compact disk before you mail them.

2) Use the correct version of the form. If you are not filing data for December 31, 2000, then obtain the correct version from www.fcc.gov/broadband/data/forms.

3) You may not insert or delete columns or rows, move cells, or edit text or numbers outside the cells provided for data entries. Files that cannot be opened in EXCEL97, files whose structure has been altered, and files with improper names will be returned for refiling.

4) If you have questions about the form, contact the Common Carrier Bureau, Industry Analysis Division at (202) 418-0940; via e-mail at 477INFO@fcc.gov; or via TTY at (202) 418-0484.

5) You must include a Certification statement signed by an officer of your company. A single statement will cover all files included on the diskette.

6) If you request non-disclosure of some data, you must file a public version of the form with such information redacted. See Sections IV-B and IV-C of the instructions for information on preparing a redacted file.

7) Name your files as specified in section IV.B.1 of the instructions. To assist you, complete this Cover Page to generate an "example" name, below. Replace the character "#" in this example name with a sequence number as specified in the instructions. This number should be "1" unless using "1" would cause you to submit more than one file with the identical file name.

Example SST#D00name.XLS

OMB NO: 3060-0816
EXPIRATION DATE: 11/30/2003

Holland # 237

Complete Part I if you and all affiliates (including commonly controlled entities) provide 250 or more broadband lines or wireless channels in the state over your own facilities or over lines you provisioned as broadband. See instructions for definitions of "own facilities", "broadband", "end user", and "residential and small business".

If you provide data in Part I, you must provide in Part V a list containing the 5-digit zip codes of the end-user locations in which you provide the broadband services reported herein. See instructions.

Data as of December 31, 2000	(a)	Percentages of lines and wireless channels reported in (a)				
A. Lines and wireless channels of broadband service that you provided over your own facilities, or over UNE loops or other lines and wireless channels that you obtained from other service providers and equipped as broadband, categorized by technology at the end-user location.	Total one-way and two-way (full) broadband lines and wireless channels	(b) % of (a) used by residential & small business customers	(c) % of (a) provided over your own facilities	(d) % of (a) provided (i.e. billed directly) to end users	(e) % of (a) providing customers greater than 200 kbps in both directions	(f) % of (a) providing customers greater than 2 mbps in both directions
I - 1. Asymmetric xDSL.						
I - 2. Other traditional wireline including symmetric xDSL.					100%	
I - 3. Coaxial carrier systems including hybrid fiber-coaxial systems.						
I - 4. Optical carrier (fiber to the end user).						
I - 5. Satellite.						
I - 6. Terrestrial wireless fixed.						
I - 7. Terrestrial wireless mobile.						
I - 8. All other technologies, such as distribution over electric power lines.						

OMB NO: 3060-0816
EXPIRATION DATE: 11/30/2003

Complete Part II if you and all affiliates (including commonly controlled entities) provide 10,000 or more voice-grade equivalent lines or wireless voice-grade equivalent channels used for local exchange or exchange access service in the state. See instructions for definitions of "voice telephone service", "voice-grade equivalent lines", "residential and small business", "owned facilities", "COLO switching centers", and "end users".

If you provide data in Part II, you must provide in Part V a list containing the 5-digit zip codes of the end-user locations in which you provide the wireline or fixed wireless voice grade services reported herein. See instructions.

Data as of December 31, 2000

	(a) Total voice-grade equivalent lines and voice-grade equivalent wireless channels in service	Percentages of lines and wireless channels reported in (a): (b) % of (a) used for residential & small business service	(c) % of (a) provided over your own facilities	(d) % of (a) provided over UNE loops	(e) % of (a) in ILEC COLO switching centers
A. Voice telephone service provided to end users.					
II - 1. Total lines and channels you provided to end users.					
B. Voice telephone service provided to other communications carriers, categorized by:					
II - 2. Lines and channels that you provided under a Total Service Resale arrangement. See instructions.					
II - 3. Lines and channels you provided under other resale arrangements, such as resold centrex.					
C. UNE loops, special access lines, and those private lines that connect to carriers, categorized by:	(a) Total lines and wireless channels				
II - 4. Lines and channels that you provided under a UNE loop arrangement, where you do not provide switching for the line.					
II - 5. Lines and channels that you provided under a UNE loop arrangement, where you also provided switching for the line.					
II - 6. Special access lines not provided as broadband and private lines that connect an end-user premises to a telecommunications common carrier and is not provided as broadband.					

		Percentage of channels reported in (a), carried over the following types of facilities categorized by the technology used in the part of the line or wireless channel at the end-user location: (f) cable coaxial	(g) wireless	(h) all other including traditional wireline
D. Total wireline voice-grade equivalent lines & fixed wireless voice-grade equivalent channels in service.				
II - 7. Total lines and channels provided. [line II-1+line II-2 + line II-3]				

OMB NO: 3060-0816
EXPIRATION DATE: 11/30/2003

Complete Part III if you and all affiliates (including commonly controlled entities) serve 10,000 or more mobile voice telephony subscribers in the state over your own facilities. See instructions for definitions of "mobile voice telephony subscribers" and "owned facilities".

Data as of December 31, 2000

A. Mobile voice telephony subscribers in service and served over your own facilities.

	(a) Network telephone service: subscribers	(b) Percentage of (a) provided (i.e. billed directly) to end users
III - 1. Cellular, PCS & other mobile telephony.		

OMB NO: 3060-0816
EXPIRATION DATE: 11/30/2003

Space for comments or explanatory notes.

Part	Line	Comment

Filers completing Part I or Part II must supply a list of 5-digit Zip Codes in which the filer has at least one customer.
Do not provide customer counts by Zip Code.

Data as of December 31, 2000

V - 1. 5-digit Zip Codes in the state in which you provide service to end-user locations:

	(a) Broadband Service	(b) Wireline & Fixed Wireless Exchange Telephone
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
31		
32		
33		
34		

OMB NO: 3060-0816
EXPIRATION DATE: 11/30/2003

FCC Form 477 -- Local Competition and Broadband Reporting

Cover Page - Name & Contact Information

All filers must complete this section. File data as of: June 30, 2001

1. Filing Status: Click and select from drop-down list
2. Company:

3. Indicate the category that best describes the operations covered by this filing.
   Click and select from drop-down list

4. Filers must report separate data for ILEC and non-ILEC operations.
   Use the following drop-down box to indicate whether this worksheet contains data for ILEC or for non-ILEC operations.
   Click and select from drop-down list

5. Use the following drop-down box to select your company, parent or controlling entity name. Select "not shown" if it is not in the list. See instructions Section IV-B-1 for information on preparing file names.
   Not shown below

   If you selected "not shown" above, then provide the following:

   Name of company, parent or controlling entity.

6. State. Click and select from drop-down list

7. Contact person (person who prepared the data contained below).

8. Contact person telephone number and e-mail address.
   phone
   e-mail

9. Indicate whether this is an original or revised filing.
   Click and select from drop-down list

10. Indicate whether you request non-disclosure of some or all of the information in this file because you believe that this information is privileged and confidential and public disclosure of such information would likely cause substantial harm to the competitive position of the filer.
    Click and select from drop-down list

11. If you requested non-disclosure in line 10, indicate if this is your complete or redacted file.
    Click and select from drop-down list

Please review instructions before completing form.

Reminders:

1) Virus check your floppy diskettes or compact disk before you mail them.

2) If you are not filing data for June 30, 2001, then contact the Common Carrier Bureau, Industry Analysis Division at (202) 418-0940; via e-mail at 477INFO@fcc.gov; or via TTY at (202) 418-0484.

3) You may not insert or delete columns or rows, move cells, or edit text or numbers outside the cells provided for data entries. Files that cannot be opened in EXCEL97, files whose structure has been altered, and files with improper names will be returned for refiling.

4) If you have questions about the form, contact the Common Carrier Bureau, Industry Analysis Division at (202) 418-0940; via e-mail at 477INFO@fcc.gov; or via TTY at (202) 418-0484.

5) You must include a Certification statement signed by an officer of your company. A single statement will cover all files included on the diskette.

6) If you request non-disclosure of some data, you must file a public version of the form with such information redacted. See Sections IV-B and IV-C of the instructions for information on preparing a redacted file.

7) Name your files as specified in section IV.B.1 of the instructions. To assist you, complete this Cover Page to generate an "example" name, below. Replace the character "#" in this example name with a sequence number as specified in the instructions. This number should be "1" unless using "1" would cause you to submit more than one file with the identical file name.

Example SST#J01name.XLS

OMB NO: 3060-0816
EXPIRATION DATE: 11/30/2003

Holland #238